



Doing Business In Hong Kong & Macau: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Hong Kong and Macau

Hong Kong

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Market Overview

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- **Hong Kong is an ideal market platform for doing business in Asia, especially Mainland China.** Hong Kong is a “free port” with virtually no duties or tariffs. Its strong rule of law and respect for property rights make it an ideal strategic platform for U.S. companies, especially small- and medium-sized firms, seeking to do business in Asia. Hong Kong partners typically know and have close links to markets in Mainland China and the rest of Asia.
- **Key Characteristics: Open to international tourism, trade and investment.**
Population: 6.9 million (mid-2005).
Visitors: 21 million (2004).
GDP Per Capita: US\$24,045 (2004).
GDP growth: 8.2% (3Q/2005).
Trade to GDP ratio: 320% (2004).
U.S. Exports: US\$15.8 billion, 5.8 % of Hong Kong's imports (2004).
Major Trading Partners: Mainland China, U.S., EU, Japan, and Taiwan.
Other: World-class infrastructure; free flow of information; no restrictions on inward or outward investment; no foreign exchange controls; no nationality restrictions on corporate or sectoral ownership; simple low-tax regime; and world financial center.
- **Special Administrative Region of China:** Hong Kong has its own common law legal system, currency and customs jurisdiction. Hong Kong's financial, marketing and technical expertise, and sophisticated infrastructure, combined with the Mainland's rapidly developing manufacturing base, create wide-ranging business opportunities. Many Hong Kong manufacturers have moved production to South China's Pearl River Delta (PRD), with Hong Kong functioning as the region's services and trade hub. Mainland China is Hong Kong's largest trading partner, and thousands of multinational firms with interests in Mainland China have their headquarters in Hong Kong.
- **Closer Economic Partnership Arrangement (CEPA) with Mainland China:** This free trade agreement offers Hong Kong's products and firms preferential access to the Mainland's market. CEPA goes beyond Mainland China's World Trade Organization (WTO) commitments, eliminating tariffs and allowing earlier or preferential access to some service sectors. Overseas companies can partner with, invest in, acquire, or buy into a CEPA-qualified firm in Hong Kong.

Market Challenges

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- **Increasing integration with the Mainland:** As Hong Kong's Mainland China market access and opportunities have grown, its higher costs have led to a hollowing out of its manufacturing sector. Mainland rivals present increasing competition, even in sectors where Hong Kong has long been dominant, like container port handling.
- **Firms are bypassing Hong Kong:** Companies that go directly to the Mainland China market without sufficient due diligence, however, often face higher costs and longer delays than if they had first engaged a Hong Kong-based intermediary.

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- **Excellent prospects for U.S. suppliers:** Over 20 percent of all Hong Kong Government contracts are awarded to U.S. firms. Leading export sectors for U.S. firms include computer peripherals, plastic materials & resins, electronic components, drugs and pharmaceuticals, environmental technologies, mass transit equipment, landscape architectural services, automotive parts and accessories, safety and security equipment, green building materials, and cosmetics and toiletries.
- **Major Hong Kong public infrastructure projects include:** Hong Kong International Airport Expansion Plan, Kai Tak Airport Redevelopment, Tourism Infrastructure and City Improvement, Disneyland, West Kowloon Cultural District, Port Development, Ocean Park Revamp Plan, Harbor Area Treatment Scheme, the Hong Kong-Macau-Zhuhai Bridge, and the Waste Reduction Project.

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- **Hong Kong agents and distributors can increase sales of U.S. products in both Hong Kong and Mainland China.** Given Mainland China's size and diversity, it is sometimes advisable to work with different agents for different regions of Mainland China.
- **Hong Kong firms are eager to work with serious exporters.** U.S. firms can show commitment to success in this market by using metric measurements, providing Chinese-language materials, responding quickly to inquiries, meeting relevant standards, and visiting the market for first-hand understanding and relationship building.

- **Companies considering entering this market should understand Hong Kong's fast-paced business climate.** Decisions are made quickly. Firms must respond immediately to inquiries or risk losing opportunities to faster-moving competitors.

Macau

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- **Macau's GDP grew by 28.6 percent in 2004.** A Special Administrative Region of Mainland China, Macau is a "free port" with low taxation. Since liberalizing the gaming industry in 2002, Macau has benefited from US\$2.2 billion in investment in the gaming industry, spurring more visitors and consumption demand. Other growth areas include finance, insurance, construction, real estate and manufacturing. Macau's exports include textiles, garments, toys, electronics, and footwear. Its main export market is the U.S., while it imports mainly from Mainland China and Hong Kong.
- **Key Characteristics: Rapid growth in tourism and inbound investment.**
Population: 476,000 (mid-2005).
Visitors: 17 million (2004).
GDP Per Capita: US\$22,671 (2004).
U.S. Exports: US\$3.49 billion, 5.1 percent of Macau's imports (2004).
Trading Partners: Mainland China, Hong Kong, Japan, EU, Taiwan and U.S.
- **Closer Economic Partnership Agreement (CEPA) with Mainland China:**
Macau's September 2003 agreement with Mainland China enhanced its economic integration with the PRC.

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- **Gaming and tourism growth eclipse other sectors:** Many U.S. firms are overlooking opportunities in other sectors. Though small, Macau offers companies a good foothold to get into the region.

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- **U.S. exports to Macau have grown significantly.** In the past year (January-November 2005 compared to the same period in 2004), U.S. capital goods exports increased 13.1 percent; consumer goods, 16.8 percent; fuel and lubricants, 117.8 percent; and raw materials and semi-finished products, 0.5 percent.
- **Specific U.S. export opportunities include:** Gaming equipment; architectural services; energy-efficient lighting; recreational and sports equipment; security equipment; “smart building” systems; hotel, restaurant and resort management training services; air conditioning; building materials; carpeting; computer and financial software; and furniture.
- **Major Macau public infrastructure projects include:** Cotai Development, Wynn Resorts, Galaxy Resort and Casino, The Venetian, Sociedade de Jogos de Macau (SJM), and the Hong Kong-Macau-Zhuhai Bridge.

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- Macau and Hong Kong agents and distributors can increase sales in Macau.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

Hong Kong: <http://www.state.gov/r/pa/ei/bgn/2747.htm>

Macau: <http://www.state.gov/r/pa/ei/bgn/7066.htm>

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Using an Agent or Distributor

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Working with agents and distributors in Hong Kong is very much like working with agents and distributors in the United States. An agent takes orders in the supplier's name. Distributors act in their own name and may stock products purchased from the manufacturer for resale.

Hong Kong has no special legislation regarding agents and distributors. Virtually anything to which both sides can agree and put into a written contract is acceptable and enforceable; this includes restrictions on territory and a grace period for termination of the agreement. While Hong Kong law does not require legal counsel, the more complex the contract, the more helpful legal counsel can be in drafting the text. Items that are often in the contract include:

- Discussion of exclusivity and sales territories – businesses should be careful about granting an exclusive agency too soon or in too large a territory if the agent is to have coverage beyond Hong Kong.
- Discussion of proprietary information – local law prohibits theft of intellectual property, but prevention of piracy is always less expensive and more effective than post-facto remedial legal action.
- Levels of sales activity – set specific targets and goals the agent or distributor must meet in order to maintain or renew the agreement.
- Duration.

- Payment terms.
- Quality control – inspection – verification.
- Rule of law – jurisdiction in the United States vs. Hong Kong. Generally, Hong Kong is chosen, but another location may be specified.
- Covenants restricting business activity following cancellation of the contract.

There are many types of agents and distributors in Hong Kong, ranging from those who simply stock retail stores with standard items to agents who provide sales, engineering and technical support for complex systems. It is common for a single company to deal in a wide variety of products in a particular sector. Agents and trading companies may be less specialized than companies in a large economy like the United States, but the best ones are focused and have contacts in a special line of business.

Establishing an Office

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Foreign companies are allowed to incorporate their operations, register branches, or set up representative offices freely in Hong Kong. There is no restriction on the ownership of such operations. Company directors need not be citizens of, or reside in, Hong Kong. Reporting requirements are straightforward and not onerous. There is no distinction in law or practice between investment by foreign-controlled companies and those controlled by local interests. There are no disincentives to foreign investment such as limitations on the use or transfer of foreign currency, or any system of quotas, performance requirements, bonds, deposits, or other restrictive regulations. High labor and rental costs are the major disincentives to establishing a presence in Hong Kong.

To incorporate or register in Hong Kong, the foreign company should first file statutory declarations and submit the necessary documents to the Administration Section of the Companies Registry. Specific information on establishing an office in Hong Kong is available at:

New Companies Section
Companies Registry
14/F, Queensway Government Offices
66 Queensway
Hong Kong
Tel: (852) 2867-2587
Email: crenq@cr.gov.hk
Website: <http://www.cr.gov.hk>

Franchising

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The concept of franchising has been catching on in Hong Kong for more than a decade. Hong Kong's legal framework and high per capita income attract foreign franchisors looking to sub-franchise. There is no specific legislation governing franchised operations. There are no anti-trust laws, or laws controlling foreign equity participation and local management participation agreements. Disputes arising from a franchise agreement are subject to the common law (and specifically to contract law) and to legislation relating to licensing, and protection of intellectual property rights, and registration of trademarks/service marks.

The number of franchised operations in Hong Kong was 120 in 2005 and they operated 2,500 outlets. Master franchisees operate about 18 percent of outlets, while foreign franchisors or a territory developer themselves operate 29 percent of the outlets directly. The remaining 53 percent comprised homegrown franchised operations. 36 percent of franchises in Hong Kong are in the catering and quick-service restaurants category, one third are in services, and the rest are in retailing. A list of franchise operators in Hong Kong can be found on the Hong Kong General Chamber of Commerce's franchise website at www.franchise.org.hk.

The majority of the foreign franchised operations are from the U.S. Master franchisees of foreign franchises in Hong Kong very often include Macau and Southern China as their territory of operation. U.S. brands such as Starbucks, 7-Eleven, California Pizza Kitchen, American Drycleaners, Gymboree, and Century 21 are popular in Hong Kong.

Homegrown franchises have also developed, and many have expanded their franchises to Southeast Asia and Mainland China. Some of the more visible local franchisees include: Double Star coffee outlet, FX Creations (fashion wear), Japan Home Store, Hui Lau Shan (desserts outlet), Pie & Tart, Nail Nail, Nail Bar, Vogue Laundry, BYOC Coffee Chateau, and Saint's Alp (snacks and Taiwanese-style "frothy" tea house.) Most franchise growth has been in quick service restaurants, natural products and food supplements retailing, nail bars, and learning centers.

During the past three years, initial investment for a franchise has decreased, and franchisors have become more flexible in their contract terms. The duration of the franchise agreement is usually linked to the length of the lease agreement of the premises, generally three years. In Hong Kong, franchise investors can usually recoup their investment in about 18 months.

Direct Marketing

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Hong Kong has a well-developed network of retail outlets. Supermarkets, department stores, convenience stores and modern shopping malls have become increasingly popular, because of their easy access, convenient location and seven-day availability. Consumers prefer buying products from retail outlets to buying products through mail order or person-to-person selling, as they consider retail shopping a leisure activity. Direct sales account for less than 1 percent of total retail sales, though direct sales have increased in popularity following the economic slowdown in 1998. Many who lost their jobs turned to direct selling, while others who suffered pay cuts joined direct selling companies to augment their income. Direct sales continued to increase despite the economic recovery and better job prospects. The volume of direct sales grew between

five percent and ten percent over the past few years, particularly in nutritional supplements. The demand for nutritional supplements increased as Hong Kong consumers became more health-conscious following the SARS outbreak. One of the major distribution channels for nutritional supplements is direct selling. American firms, Alticor (Amway,) NuSkin, Herbalife, Usana, and Unicity that dominate the direct selling sector all offer nutritional supplements. Many local companies, particularly Chinese herbal health supplement distributors, have also adopted direct sales distribution.

Joint Ventures/Licensing

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Joint ventures or strategic alliances can be very helpful in entering the market and are particularly important in competing for major projects.

Licensing is increasingly common in the field of brand name product manufacturing and marketing.

Selling to the Government

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The Government Logistics Department (GLD) is the central purchasing, storage and supply organization for the Government of the Hong Kong Special Administrative Region, serving over 80 government departments, subvented organizations and certain non-government public bodies. The GLD normally purchases by open tender, with decisions based on compliance with tender specifications, competitiveness in price, back-up service and delivery. The GLD gives no preference to any particular source of supply from any country or organization. The GLD spent US\$621 million in 2004, with American products winning approximately 21 percent of the total procurement contracts (about US\$129 million). Hong Kong joined the WTO Agreement on Government Procurement in May 1997. Tenders are now covered by the Agreement on Government Procurement of the World Trade Organization (WTO GPA), and a Review Body on Bid Challenges has been set up by the Government to handle challenges made against alleged breaches of the WTO GPA. Tender invitations are published in the Government of the Hong Kong Special Administrative Region Gazette and in selected Hong Kong newspapers. Tender notices are also published on the Internet in the GLD's Electronic Tendering System (ETS) web site (<http://www.ets.com/hk>). Tenderers usually have at least three weeks to prepare their offers. For procurement covered by the WTO GPA, the time allowed for bid submission is 40 days. Payment to overseas suppliers is usually effected by wire transfer, bank draft or letter of credit upon acceptance of the goods. Contract awards with the names of successful tenderers and contract sums are published monthly in the Government Gazette and on the Internet.

For information about a subscription to the Government of the Hong Kong Special Administrative Region Gazette, contact:

Information Officer
Publications Sales Unit
Information Services Department

4th Floor, Murray Building
22 Garden Road, Central
Hong Kong
Tel: (852) 2537-1910
Fax: (852) 2523-7195
Email: puborder@isd.gov.hk
Website: <http://www.isd.gov.hk/eng/publication.htm>

The GLD maintains lists of registered suppliers for issuing tender invitations. Any company not currently registered with the GLD wishing to be considered for inclusion in these lists may apply in writing to the Director of Government Logistics or through the ETS at www.ets.com.hk. Companies are required to provide basic information about their organizations and the goods they offer, such as the business registration certificate, company profile, annual report and product catalogs. The GLD evaluates this information, and those companies that are found acceptable will be included on the lists. The ETS allows GLD-registered suppliers to download tender documents and to submit tender offers and related questions on-line. To access ETS, firms need to subscribe. Details are available at <http://www.ets.com.hk/>.

Companies seeking more information on the GLD are encouraged to contact:

The Director of Government Logistics
Government Logistics Department
10/F, North Point Government Offices
333 Java Road
North Point, Hong Kong
Tel: (852) 2231-5398
Fax: (852) 2887-6591
Email: info@gld.gov.hk
Website: <http://www.gld.gov.hk>

Distribution and Sales Channels

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One of the best ways to sell products in Hong Kong is through the use of agents or distributors. It is also an excellent way to minimize the initial investment in the market. There is a wide range of companies that can serve as agents or distributors for U.S. firms. Other options for pursuing Hong Kong's market are establishing an office or partnering. Companies that are looking to sell equipment needing long-term maintenance, technical support or installation, or that are seeking to become involved in infrastructure projects, frequently seek to partner with local companies.

Selling Factors/Techniques

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The major selling factors are the same as in the United States: price, quality, compliance with technical specifications, timeliness of delivery, and service. Initial sales require

more face-to-face contact as Asian agents, distributors and buyers generally place a premium on developing personal connections.

Hong Kong firms are eager to work with serious exporters. Firms can show their commitment to successful market entry by using metric measurements, providing Chinese-language materials, responding quickly to inquiries, meeting relevant standards, and visiting the market for first-hand understanding and building relationships.

Companies considering entering this market should understand Hong Kong's fast-paced business climate. Decisions are made quickly. Firms must respond immediately to inquiries or risk losing opportunities to faster-moving competitors.

Electronic Commerce

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Usage of personal computers (PCs) and the Internet has become an integral part of Hong Kong daily life. Hong Kong is on a par with the world's cities with the highest PC and broadband penetration in the world. According to a government survey conducted in 2005, 1.6 million households or 70 percent of all households in Hong Kong had PCs at home. Among those households with PC at home, some 1.47 million or 92.2 percent had their PCs connected to the Internet. People are making use of the Internet to send emails, play on-line games, surf the web, carry out research, and conduct on-line banking transactions and low-value purchases. The survey estimated that around 97.3 percent of all persons aged 15 and above had used electronic business services of one form or another for personal matters in the 12 months before the survey, slightly higher than that of 2004 (96.7 percent).

The survey also revealed that PC and Internet usage in the business sector had increased steadily. In 2005, 60.5 percent of businesses had PCs and 54.7 percent had Internet connection (compared to 58.4 percent and 50.4 percent respectively in 2004). About 15.7 percent of businesses had delivered their goods, services or information through electronic means in 2005 (compared to 15 percent in 2004). The total amount of business receipts received from selling goods, services or information through electronic means in 2004 was estimated at US\$3.5 billion (compared to US\$2.7 billion in 2003).

In terms of Internet connection, 90 percent of the households and all commercial buildings in Hong Kong have access to broadband connection. As at April 2005, there were 186 licensed Internet Service Providers (ISPs) and over 1.5 million subscribers using broadband Internet services with speed up to 10 Mbps. In Hong Kong, the ISP market is very competitive. Consumers enjoy a wide and sophisticated range of services at competitive prices. In addition to the high penetration rate, Hong Kong's broadband Internet service is very affordable. Unlimited broadband connection costs about US\$20 per month.

The SAR Government fully recognizes the importance of promoting the development of e-commerce. It has played an active role in encouraging use of the Internet and electronic commerce in Hong Kong. Currently, 90 percent of the amenable public services are already being covered by an e-option. Examples of Government online

services include the submission of tax returns, renewal of driver's licenses, payment of Government bills, voter registration, submission of Government tenders, reservation of public recreational facilities, etc. Due to the Hong Kong Government's effort, usage of online Government services is becoming more common. Of all persons aged 15 or above, 29.4 percent or 1.69 million people had used online Government services for personal matters in the 12 months before the 2005 survey.

The SAR Government is also committed to providing a favorable environment to foster the development of e-commerce in Hong Kong. This includes the enactment in January 2000 of the Electronic Transactions Ordinance, which provides the necessary legal framework for electronic transactions and encourages further acceptance of electronic commerce. In order to provide a safe and secure e-commerce environment, the Government also built key infrastructure through the establishment of a Public Certification Authority and a voluntary Certification Authority (CA) recognition scheme in Hong Kong. Currently, there are 3 recognized CAs operating in Hong Kong: Digi-Sign Certification Services Ltd., HiTRUST.Com and the Hong Kong Postmaster General. The SAR Government's IT initiatives have provided the necessary environment, in terms of infrastructure, technology, legal framework and general awareness, to support a robust e-commerce platform.

Contact Details:

Digi-Sign Certification Services Limited
Suite 20, 5/F, Hong Kong International Trade & Exhibition Centre
1 Trademart Drive, Kowloon Bay
Hong Kong
Tel: (852) 2917-8833
Email: hotline@dg-sign.com

HiTRUST.COM (HK) Incorporated Limited
18/F, World Peace Centre
55 Wo Tong Tsui Street, Kwai Chung
Hong Kong
Point of Contact: Customer Service Division
Tel: (852) 2619-1200
Email: customer-service@hitrust.com.hk

Hongkong Post
2 Connaught Place, Central
Hong Kong
Point of Contact: Electronic Services Division
Tel: (852) 2927-7132
Email: enquiry@hongkongpost.gov.hk

In addition to e-Government, the Government is also fostering the development of mobile-commerce by developing m-Government to leverage on Hong Kong's high mobile phone penetration rates (120 percent) and the third-generation (3G) mobile network services. Currently, with mobile devices, Hong Kong's citizens can access information on weather forecast, air pollution index, and road traffic images, etc. Citizens can also make certain transactions with Government, like making appointment with government agencies, via mobile devices.

U.S. companies can use a variety of promotional vehicles to introduce and raise the visibility of their products and services in the Hong Kong market. These include:

- Special trade fairs and exhibitions
- Advertising in the media and other public relations activities
- Seminars
- In-store promotions
- Joint promotions with wholesale and retail outlets

Hong Kong is a major conference and exhibition center. Hundreds of international exhibitions are held annually. Located in the business district on Hong Kong Island, the Hong Kong Convention and Exhibition Center (HKCEC, <http://www.hkcec.com>) is owned by the Hong Kong Trade Development Council (HKTDC) and operated by Hong Kong Convention and Exhibition Center Management Ltd. HKCEC consists of five exhibition halls, two ballroom-style convention halls, two theatres, and 52 variously sized meeting rooms. In December 2005, a new world-class exhibition and event venue, AsiaWorld-Expo (<http://www.asiaworld-expo.com>) opened. Located next to Hong Kong International Airport, AsiaWorld-Expo offers over 70,000 square meters of exhibition and function space. Both facilities make Hong Kong “The Events Capital of Asia”.

Television is a widely used medium with an estimated daily audience of 2.25 million households out of a population of nearly 6.9 million people. Hong Kong Television also reaches much of neighboring Guangdong Province in Mainland China, where Hong Kong programming is very popular.

Hong Kong is one of the largest centers in the world for Chinese-language publications. Hong Kong produces 845 publications, including 46 daily newspapers (21 Chinese, 13 English, seven bilingual, five Japanese), and 799 periodicals. Advertising agencies, including many international agencies, offer a full range of services in Hong Kong.

Suppliers should provide technical catalogs in English, and preferably in Chinese as well, for distribution to agents and firms. Company brochures are particularly useful when visiting Hong Kong for the first time. English-Chinese business cards are also helpful. Suppliers to economic development projects in Asia should consider using Hong Kong’s film industry to make agricultural and industrial training and marketing films in Chinese and other Asian languages to supplement technical manuals, catalogs and brochures.

Newspapers:

South China Morning Post: <http://www.scmp.com>

The Standard: <http://www.thestandard.com.hk>

Chinese Newspapers:

Apple Daily: <http://www.appledaily.atnext.com>
Hong Kong Economic Times: <http://www.etpress.com.hk>
Ming Pao Daily News: <http://www.mingpao.com>
Oriental Daily News: <http://home.orisun.com/odmain/index2.html>
Sing Tao Daily: <http://www.singtao.com>

Trade Journals:

AmCham (Monthly): <http://www.amcham.org.hk>
Building Journal; Construction & Contract News (Monthly): <http://www.building.com.hk>
Far Eastern Economic Review (Monthly with the exception of February and August):
<http://www.feer.com>
Fortune (Bi-weekly): <http://www.cci.com.hk>
Hong Kong Entrepreneur (Monthly): <http://www.cma.org.hk>
Hong Kong Industrialist (Monthly): <http://www.fhki.org.hk>
Logistics HK (Monthly): <http://www.hkpc.org>
Machinery & Materials (in Chinese) (Monthly): <http://www.hkmachine.com.hk>

Featured U.S. Exporters (FUSE) is a directory of U.S. products featured on U.S. Commercial Service websites around the world. It gives U.S. companies an opportunity to target specific country markets in the local language of business. Currently, listings are offered to qualified U.S. exporters seeking trade leads or representation in over 50 markets around the world including Hong Kong. For detail information please visit website: <http://www.buyusa.gov/home/fuse.html>.

Pricing

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If possible, quote in metric and use a term of sale specifying delivery to Hong Kong (i.e. CIF or C&F destination rather than FOB origin). Hong Kong companies have many sourcing options, so American companies must make it as easy as possible to “buy American.”

Sales Service/Customer Support

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Some sort of local presence, whether it is a branch office or an agent or distributor, is very important in getting established in the market. Doing business in Hong Kong (and elsewhere in Asia) requires relationships that can only be developed with some kind of local presence. Prompt responses to inquiries and after-sales service are also crucial to succeeding in this very competitive market.

Protecting Your Intellectual Property

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The best protection for an American company is to market aggressively in Hong Kong. By using a good local agent, American manufacturers or suppliers can make their product legally available. Dealers have a strong incentive to stop any piracy or counterfeiting and, with good local connections, have a better chance of making that happen than an American company that is not actively participating in the market. The chief law enforcement agency for intellectual property rights (IPR) is the Hong Kong Customs and Excise Department, which works closely with affected industries and conducts vigorous anti-piracy and anti-counterfeiting operations. However, protecting copyrights or trademarks takes vigilance, and even with the U.S. Government vigorously pressing Hong Kong on this issue, enforcement is still dependent on reporting incidents of product piracy to the authorities and, in some cases, providing evidence in court. For more information on intellectual property legislation and registration, see Chapter 6: Investment Climate - Protection of Property Rights.

Due Diligence

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Knowing your business partner is critical to evaluating any major business deal. In today's business climate, while a company's financial and legal standing are important, issues relating to the company's reputation, history, business ethics, integrity, business acumen, and influence in its business sectors and local environments can all be critical to a successful deal. One key aspect, often misunderstood, is that negative information need not be a deal killer. Such information often offers opportunities to re-negotiate better terms and/or structure deals to mitigate identified risks. The key to due diligence is to do it up front, before any commitments or deals are signed. Unlike Mainland China where it is difficult to gather information, getting information on Hong Kong entities is relatively easy. There are many service providers that offer investigative due diligence. A list of Hong Kong service providers is available from the U.S. Commercial Service Hong Kong website:

<http://www.buyusa.gov/hongkong/en/businessserviceproviders.html>.

Local Professional Services

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Association of Accredited Advertising Agents of Hong Kong: <http://www.aaaa.com.hk>

Direct Selling Association of Hong Kong: <http://www.hkdsa.org.hk>

Hong Kong Designers Association: <http://www.hongkongda.com>

Hong Kong Institute of Marketing: <http://www.hkim.org.hk>

Hong Kong Management Association: <http://www.hkma.org.hk>

Law Society of Hong Kong: <http://hklawsoc.org.hk>

Management Consultancies Association of Hong Kong: <http://www.mca.org.hk>

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Business Licence Information Services: <http://www.licence.tid.gov.hk/>

Companies Registry: <http://www.cr.gov.hk>

Digital 21: <http://www.info.gov.hk/digital21>
Doing Business in Hong Kong: <http://www.business.gov.hk>
Government Logistics Department: <http://www.gld.gov.hk>
GS1 Hong Kong (formerly Hong Kong Article Numbering Association – HKANA):
<http://www.gs1hk.org>
Hong Kong Industry Internet: <http://www.hkindustry.org>
Hong Kong Industry On-Line: <http://www.hkiol.org>
Hong Kong Productivity Council (HKPC): <http://www.hkpc.org/>
Hong Kong Trade Development Council: <http://www.tdctrade.com>
Hongkong Post: <http://www.hongkongpost.gov.hk/>
Invest Hong Kong: <http://www.investhk.gov.hk>
Small & Medium Enterprises (SME) Information Centre: <http://www.sme.gcn.gov.hk>
Vocational Training Council (VTC): <http://www.vtc.edu.hk/>

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Chapter 4: Leading Sectors for U.S. Export and Investment

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- [Environmental Technologies \(POL\)](#)
- [Mass Transit Equipment \(RRE\)](#)
- [Landscape Architectural Services \(ACE\)](#)
- [Automotive Parts and Accessories \(APS\)](#)
- [Safety and Security Equipment \(SEC\)](#)
- [Green Building Materials \(BLD, ACE, CON\)](#)
- [Cosmetics and Toiletries \(COS\)](#)

Agricultural Sectors

- [Agricultural Sectors](#)

Commercial Sectors

U.S. Merchandise Exports to Hong Kong (in thousands of U.S. dollars)

| Product | 2002 | 2003 | 2004 | Jan. - Sept., 2005 |
|----------------------------------|------------|------------|------------|-----------------------|
| Electrical Machinery | 3,999,521 | 4,508,543 | 6,035,469 | 4,372,302 |
| Nuclear Reactor Parts | 2,048,500 | 1,993,924 | 2,093,221 | 1,745,520 |
| Pearls, Precious Metals + Stones | 839,190 | 932,168 | 1,296,342 | 1,356,624 |
| Optical Goods | 799,241 | 929,423 | 963,261 | 734,185 |
| Other | 4,925,104 | 5,178,030 | 5,420,866 | 4,083,357 |
| TOTAL | 12,611,556 | 13,542,088 | 15,809,159 | 12,291,988 |

With U.S. exports to Hong Kong in the first three quarters of 2005 of US\$12.3 billion, Hong Kong is the U.S.' 13th largest export market worldwide. The U.S. ran a US\$6.0 billion trade surplus with Hong Kong in the first three quarters of 2005.

The U.S. is Hong Kong's fourth biggest foreign supplier country, trailing Mainland China, Japan and Taiwan, but ahead of Singapore, South Korea, Malaysia, Germany, Thailand and the Philippines. During the period January to November 2005, imports from the U.S. jumped 8.2 percent over the same period in 2004.

The top ten U.S. states exporting merchandise to Hong Kong in the first three quarter of 2005 were:

- | | |
|----------------------------------|------------------------------------|
| 1. California (\$3.7 billion) | 6. New Jersey (\$334 million) |
| 2. New York (\$1.7 billion) | 7. Florida (\$269 million) |
| 3. Texas (\$792 million) | 8. Pennsylvania (\$268 million) |
| 4. Massachusetts (\$377 million) | 9. Washington (\$257 million) |
| 5. Illinois (\$360 million) | 10. North Carolina (\$252 million) |

COMPUTER PERIPHERALS (CPT)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|--------|--------|------------------|
| Total Market Size | 2,100 | 2,205 | 2,315 |
| Total Local Production | 955 | 3,235 | 6,660 |
| Total Exports | 21,842 | 25,558 | 33,796 |
| Total Imports | 22,887 | 24,528 | 29,451 |
| Imports from the U.S. | 1,452 | 1,478 | 1,695 |

All figures are in US\$ millions. The above statistics are unofficial estimates.

Hong Kong's IT equipment imports in 2004 reached US\$24.5 billion, a 7 percent increase over 2003. The estimated value of U.S. IT equipment exports to Hong Kong was US\$1.7 billion in 2005, representing a 14 percent increase over the previous year.

Best Products/Services

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Along with the importance of IT and sustained popularity of the Internet, the demand for IT products and solutions continues to grow in Hong Kong, particularly in the following areas: Wireless/Mobile Applications; Multi-Media Products, Digital Entertainment, Logistics/Supply Chain Management, E-Commerce, Data Storage, and IT Security.

Opportunities

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In 1998, the Hong Kong Government introduced Hong Kong's first Digital Policy known as the Digital 21 Strategy. Its aim was to drive Hong Kong's development as a leading digital city. The strategy focused on building an information infrastructure for Hong Kong and creating the right environment for e-business to prosper.

The Digital 21 Strategy was revised in 2001 and early 2004 to keep pace with the fast changing technological and business development. The revised Digital 21 Strategy promulgated in early March 2004 identified 8 areas of action, representing the roadmap for IT adoption and development in HK: Government leadership: continue to lead IT adaptation by example.

1. Sustainable e-government program - continue to foster e-government initiatives.
2. Infrastructure and business environment - continue to provide a world-class digital infrastructure.
3. Institutional overview - ensure the right institutions are in place for effective implementation of IT programs.

4. Technological development - foster innovative technology research and development.
5. Vibrant IT industry - help the local IT industry to grow.
6. Human resources in a knowledge economy - enhance IT skills of future workforce.
7. Bridging the digital divide.

The Government is one of the major driving forces behind IT development and usage in Hong Kong. The estimated Government IT spending in 2004 was US\$574 million.

Although Hong Kong is a relatively small market for US IT exports, U.S. companies should consider Hong Kong as a gateway into the Mainland China market. A substantial amount of IT products imported to Hong Kong is re-exported to Mainland China. In 2004, about 53 percent of Hong Kong's total exports of IT equipment went to Mainland China, totaling approximately US\$17 billion.

Resources

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Major Trade Shows:

International ICT Expo (April 14-17, 2006): <http://ictexpo.com>

Associations:

Information and Software Industry Association

Ms. Satti Wong

Tel: (852) 2622-2867

Fax: (852) 2622-2731

Email: info@isia.org.hk

Website: <http://www.isia.org.hk>

Hong Kong Information Technology Federation Ltd.

Daniel Ng, President

Tel: (852) 2287-8001

Fax: (852) 2287-8038

Email: daniel.ng@hkitf.org.hk

Website: <http://www.hkitf.org>

Hong Kong Wireless Technology Industry Association Ltd.

John Chiu, Chairman

Michael Kan, Executive Director

Tel: (852) 2370-3130

Fax: (852) 8208-8782

Email: contact@hkwtia.org

Website: <http://www.hkwtia.org>

Hong Kong Internet Service Providers Association

Chester Soong, Chairman

Tel: (852) 2803-2669

Fax: (852) 2803-2671

Email: csoong@hkispa.org.hk
Website: <http://www.hkispa.org.hk>

Hong Kong Commercial Specialist's Contact:

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Plastic Materials & Resins (PMR)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|-------|-------|------------------|
| Total Market Size | 1,275 | 1,742 | 2,154 |
| Total Local Production | 361 | 466 | 559 |
| Total Exports | 6,158 | 7,810 | 9,762 |
| Total Imports | 7,072 | 9,086 | 11,357 |
| Imports from the U.S. | 690 | 802 | 922 |

All figures are in US\$ million. The above statistics are unofficial estimates

The plastics industry is Hong Kong's eighth largest manufacturing employer and the ninth largest in gross output and export earnings. Hong Kong is a trading economy and is a major world exporter of a variety of plastic products. It has long been a major world supplier of toys, shoes, packaging, housewares and casings of electrical and electronic consumer goods. Hong Kong produces almost no plastic resins and has a very small compounding sector. Most of the plastic resins are imported. Hong Kong's plastic raw material produced is limited to polystyrene (PS), and only provides 20 percent of local demand. The rest is imported, mainly from Korea, Taiwan, Japan and the U.S. American plastics are more expensive, but of better quality. The U.S. is strong in engineering plastics for higher value-added products. Local end-users are willing to pay more for better quality.

Best Prospects/Services

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Hong Kong's plastic raw materials companies mainly deal in the trading of plastic resins and resin compounds. The major traded items are polymers of styrene (PS), including general-purpose polystyrene (GPPS) and high impact polystyrene (HIPS). Other significant types in demand include resins of low-density polymers of ethylene (LDPE), high-density polymers of ethylene (HDPE), polymers of vinyl chloride (PVC), resins of acrylonitrile butadiene styrene (ABS), polycarbonates (PC), polypropylene (PP), polyethylene terephthalate (PET), and nylon. Some Hong Kong companies also handle plastic plates, sheets, films, and foils made by various kinds of resin compounds.

Opportunities

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Hong Kong has been a major world supplier of consumer products. In the last two decades, however, to reduce land and labor costs, Hong Kong manufacturers have shifted production to Mainland China. As a result, much of the imported resins and plastic materials are re-exported for production in Mainland China. Demand for engineering plastics and specialized plastics should increase substantially due to the

rapid development of Mainland China's automotive sector, for both parts and after-market parts, computers, fiber optic cables and many other high-tech products. Most plastics users in Mainland China rely on imports, since the domestic chemical industry does not have sufficient capability to meet the increasing demand. Consequently, Mainland China imports a large volume of plastic materials through Hong Kong. The most effective approach for selling plastic resins to Hong Kong and Mainland China is to appoint an agent/distributor to perform marketing and distribution functions.

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Association:

Hong Kong Plastic Material Suppliers Association: Website unavailable
Mr. Flint Chan, Chairman
Tel: (852) 2411-2181, Fax: (852) 2412-1150

Hong Kong Commercial Specialist's Contact:

Rose Mak
Email: rose.mak@mail.doc.gov
Tel: (852) 2521-7173; Fax: (852) 2845-9800

ELECTRONIC PARTS/COMPONENTS (ELC)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|--------|--------|------------------|
| Total Market Size | 5,231 | 5,770 | 1,759 |
| Total Local Production | 1,700 | 1,785 | 1,874 |
| Total Exports | 58,932 | 76,414 | 91,106 |
| Total Imports | 62,463 | 80,399 | 90,991 |
| Imports from the U.S. | 4,031 | 4,855 | 5,067 |

All figures are in US\$ millions. The above statistics are unofficial estimates.

Hong Kong's electronic parts and components imports in 2004 reached US\$80 billion, a 28 percent increase over 2003. The value of U.S. electronic parts and components exports to Hong Kong was US\$4.8 billion, a 20 percent increase over 2003.

Best Prospects/Services

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Hong Kong imports a wide range of electronic parts and components, particularly for computers, telecommunications equipment, telephone apparatus, toys, games, watches /clocks; and audio/visual equipment. The growing popularity of the Internet, mobile-commerce; digitization as well as new developments and applications in multimedia will sustain near-term demand for parts and accessories for computers and telecommunications. Best Products include integrated circuits, switches, diodes, transistors, semi-conductors; capacitors, printed circuits, and parts for computers and telecommunications equipment.

Opportunities

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Mainland China's Five-Year Plan in developing the electronic information industry and its WTO membership will sustain continuous demand for electronic parts and components. The Five-Year-Plan aims to develop: (1) local computer hardware including network equipment and products, digital products, peripherals, spare parts, information security products, and applications; (2) software; (3) integrated circuits; (4) communication equipment; and (5) digital visual products. U.S. companies should be aware of the latest developments in Hong Kong's technology and focus on Hong Kong and Mainland China's growing demand for high-technology electronics parts and components.

Hong Kong plays an important role in U.S. exports to Mainland China due to its geographical proximity to Mainland China and its experience in Mainland China trade. In 2004, 48 percent of Hong Kong's total exports of electronic parts and components went to Mainland China, totaling approximately US\$37 billion. Hong Kong re-exported a

substantial amount of imported electronic parts and components such as integrated circuits (ICs) and micro-assemblies to Mainland China for further production.

Resources

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Major Trade Shows:

ElectronicAsia (October 13-16, 2006): <http://electronicsasia.com>

Hong Kong Electronics Fair (October 13-16, 2006): <http://www.hkelectronicfair.com>

Associations:

The Hong Kong Electronic Industries Association: <http://www.hkeia.org>

The Hong Kong Printed Circuit Association; <http://www.hkpca.org>

Surface Mount Technology Association (Hong Kong Chapter):
http://www.smta.org/chapters/chapters_detail.cfm?chapter_id=100

Hong Kong Electronic Packaging & Manufacturing Services Association:
<http://www.hkepmsa.org>

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Drug/Pharmaceuticals (DRG)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|-------|-------|------------------|
| Total Market Size | 613 | 708 | 715 |
| Total Local Production | 152 | 144 | 148 |
| Total Exports | 602 | 593 | 681 |
| Total Imports | 1,063 | 1,157 | 1,248 |
| Imports from the U.S. | 118 | 158 | 189 |

All figures are in US\$ million. The above statistics are unofficial estimates

Imports supply 80 percent of Hong Kong's drug market. Major suppliers include the U.K., Japan, Germany, Mainland China, and the U.S.

U.S. pharmaceuticals enjoy an excellent reputation in Hong Kong. Hong Kong's imports of U.S.-made pharmaceuticals reached to US\$158 million in 2004. This number does not include pharmaceuticals that U.S. companies produce or import from other countries but did not include. Hong Kong consumers generally consider U.S. pharmaceuticals to be effective and safe, since the U.S. Government exerts strict oversight over pharmaceutical manufacturing. The U.S. Food & Drug Administration (FDA) Certification is well recognized by the Pharmacy and Poisons Board of Hong Kong's Department of Health, which is responsible for registering pharmaceuticals in Hong Kong. Only local companies registered with the Department are permitted to import drugs into the territory.

Compared to other countries in the region, Hong Kong, due to its well-defined rule of law and aggressive enforcement, does a good job protecting a company's Intellectual Property Rights (IPR). The chief law enforcement body for IPR is the Hong Kong Customs and Excise Department. However, given Hong Kong's proximity to the Mainland, pharmaceutical companies face a tough time keeping fakes from Mainland China out of the market. Protecting copyrights or trademarks takes vigilance, and even with the U.S. government vigorously pressing Hong Kong on this issue, enforcement is still dependent on reporting of incidents of product piracy to the authorities and, in some cases, the presentation of evidence in court.

Best Prospects/Services

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Hypolipdaemics/Anti-Atheroma Preparations
Cephalosporins
Anti-Peptic Ulcerants
Broad Spectrum Penicillins
Anti-Obesity Preparations
Immunosuppressants

Non-Narcotics and anti-pyretics
Calcium antagonists plain
ACE inhibitors plain
Oral anti-diabetics
Antibiotics and medicaments containing other antibiotics
Health/medicine/dietary supplements
Nutraceuticals
Detoxification products
Vitamins for all ages

Opportunities

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OTC drugs are widely available in Hong Kong's 2,837 drugstores and 1,467 supermarkets and chain stores. Imported OTC drugs were mostly medicinal products, vitamins, dietary supplements, and herbal supplements, etc. In recent years, with the increase in popularity of back-to-nature products, and with the growing concern for a healthy body, particularly after the SARS and bird flu outbreaks in Hong Kong and Mainland China respectively, the demand for natural product supplements has increased tremendously. Hong Kong and Mainland China consumers are willing to spend more on health foods that they believe will benefit their health.

The Mainland China market has tremendous potential for OTC and pharmaceutical products, due to its large population and growing purchasing power. In 2004, Hong Kong's total exports of pharmaceutical products reached US\$593 million, mainly to Mainland China. As Mainland China's economy becomes more affluent, more people can afford top-end, Western-style medical care. In addition, as the average age continues to increase, it creates demand for innovative medical and health care products and services from Western countries.

Resources

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Associations and Related Organizations:

Department of Health, Pharmaceuticals I/E Control Sections:
<http://www.info.gov.hk/pharmser>

Customs and Excise Department: <http://www.info.gov.hk/customs>

Intellectual Property Department, Patents and Designs Registries: <http://www.ipd.gov.hk>

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Environmental Technologies (POL)

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Hong Kong's Overall Investment on Improving the Environment

| | |
|---|-------|
| Total Capital & Operations Cost of Waste Disposal Facilities and Total Capital & Aftercare Cost for Restoration | 4,600 |
| Capital Expenditure on Sewage Infrastructure | 2,800 |
| Expenditure on Tackling Air Pollution | 250 |
| Anticipated Investment from 2004 to 2010 | 1,400 |

All figures are in US\$ million. The above statistics are unofficial estimates.

Source: Hong Kong Environmental Protection Department

Hong Kong has been putting a lot of resources into tackling air pollution, water pollution and solid waste treatment problems. Owing to the imminent need to extend the life of existing landfills and construct a new Integrated Solid Waste Management Facility (ISWMF), solid waste management solutions and technologies will absorb the most in terms of Government expenditure on the environment in the next few years. An incinerator with the capacity of handling more than 5,000 tons of solid waste per day is likely to make up the core component of the ISWMF.

The majority of Hong Kong's wastewater undergoes primary treatment provided through the Harbor Area Treatment Scheme (HATS). Stage 1 of HATS has been completed in December 2001. Stage 2A of HATS requires the provision of additional disinfection, the construction of sewage tunnels and expansion of existing chemical treatment capacity whereas Stage 2B requires the installation of biological treatment facilities. Although the Hong Kong Government has mapped out the future phases of HATS, it has, however, not made any plans to start the project before 2008.

Hong Kong's air pollution problem is a regional one. The Government has been working with Guangdong (the adjacent Mainland Chinese province) to cut emissions of major air pollutants before 2010. US companies should consider working with Hong Kong environmental companies to market clean manufacturing and desulphurization/denitrification technologies in Southern Mainland China.

Best Prospects/Services

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Air:

- ☐ Analytical instruments
- ☐ Vehicle emission particulate reduction devices
- ☐ Desulphurization/denitrification technologies

Water/wastewater:

- ☐ Water filtration equipment (such as biological filtration)

- ❑ Disinfection technologies (UV, membrane & ozonation)
- ❑ Analytical instruments

Solid waste:

- ❑ Incineration
- ❑ Mechanical-biological treatment (waste sorting & separation)
- ❑ Biological treatment (composting)
- ❑ Waste-to-energy technologies

Opportunities

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The Hong Kong Government announced a policy framework for municipal solid waste management in December 2005. The framework encourages waste separation & recycling, and only incinerating or sending the remaining to the landfill. This policy framework opens a huge waste reduction, recycling and treatment technologies market and creates outstanding business opportunities for US companies.

The Hong Kong Government's initiatives to encourage waste separation and recycling include:

- ❑ Implement waste disposal charges
- ❑ Create possible financial incentives to support the recycling industry
- ❑ Introduce the "Producer Responsibility Scheme" – manufacturers, distributors, and sellers all bear the responsibility of waste minimization
- ❑ Introduce the "Polluter-pays Principle"
- ❑ Establish an EcoPark to provide long-term land for recyclers
- ❑ Encourage the "green (products made with recycled materials) procurement policy"

There will be a rise in waste reduction and management system demand in anticipation of the passage of the above initiatives in 2006 and the coming online of the EcoPark later in the year.

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Trade Shows:

Eco Expo Asia - International Trade Fair on Environmental Protection (October 27-30, 2006): <http://www.ecoexpoasia.com>

Trade Associations:

Environmental Contractors Management Association: <http://www.ecma.org.hk>

Green Council: <http://www.greencouncil.org>

Hong Kong Environmental Industry Association: <http://www.hkenvia.org>

Hong Kong Green-Manufacturing Alliance: <http://www.gmehk.net>

Hong Kong Sustainable Communications Association: <http://www.hksca.org>

Hong Kong Waste Management Association: <http://www.hongkongwma.org.hk>

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Mass Transit Equipment (RRE)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------------------|------|------|------------------|
| Total Market Size (Equipment) | 135 | 127 | 113 |
| Total Local Production (Equipment) | N/A | N/A | N/A |
| Total Exports (Equipment) | 10 | 3 | 0 |
| Total Imports (Equipment) | 145 | 130 | 113 |
| Imports from the U.S. (Equipment) | 25 | 23 | 23 |
| | | | |
| Total Imports (Services) | 265 | 280 | 320 |
| Imports from the U.S. (Services) | 93 | 98 | 113 |

* The figures include railroad equipment and services.

All figures are in US\$ million. The above statistics are unofficial estimates.

Exports of railroad services statistics are not available.

Hong Kong has five different rail systems: the heavily utilized Mass Transit Railway (MTR) network, the suburban Kowloon-Canton Railway (KCR), the Light Rail Transit (LRT) system, the Peak funicular tramway and a street tramway. The MTR is operated by the Mass Transit Railway Corporation Limited (MTRC, a listed company with Hong Kong Government holding 76 percent shares in MTRC) while the KCR and LRT are operated by the Kowloon-Canton Railway Corporation (a wholly Government owned public corporation.) Both MTR and KCR are profitable and operate without any Government grants. The MTRC is currently waiting for the Hong Kong legislature to approve a merger with the KCR. This merger aims to increase the overall efficiency of the combined railroad system and to maximize utilization of existing facilities. The tramways are owned by private operators.

Railroads account for 31 percent of daily domestic passenger travel and over 80 percent of cross-boundary passenger trips to Mainland China. The Government's transport policy is to use railroads as the backbone of the public transport system. As outlined in the Railway Development Strategy 2000, the rail systems are being extended. An estimated US\$13 billion will be spent on six additional rail lines targeted for completion between 2008 and 2016.

Exports of railroad equipment to Hong Kong decreased by 13 percent from approximately US\$130 million in 2004 to US\$113 million in 2005. Exports of railroad equipment should pick up in the next two years to coincide with the start of a new purchasing cycle for the upcoming projects planned in 2008. The U.S. maintains a small share, supplying only two percent or around US\$23 million worth of railroad equipment

to Hong Kong. It is important to note that these statistics understate the total actual participation of U.S. companies in the Hong Kong railroad market. This is largely due to the fact that some large U.S. companies provide consultancy and project management services that are not captured by these statistics. U.S. export of railroad-related services is estimated to increase by 15 percent from US\$98 million in 2004 to US\$113 million in 2005.

Best Products/Services

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Historically, large U.S. building and construction companies have not been very active in the Hong Kong railroad industry. In railroad projects, civil contracts are still the largest share of all contracts. Electrical and mechanical (E&M) contracts contribute a smaller share (e.g. E&M contracts only account for 22 percent of all the Airport Railroad contracts). American building and construction companies should consider forming strategic alliances with local firms. Local experience is crucial in winning any railroad projects and large civil engineering contracts have been won by construction consortia.

Other best prospects for U.S. companies include railroad project management, environmental impact assessment consultancy projects, controls and communications projects and rail security.

Opportunities

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Opportunities for U.S. companies arise from the expansion of MTR's and KCR's planned railroad projects.

MTR's Planned Projects in Hong Kong

MTR operates a railroad network of 90.0 kilometers with 52 stations. Its seven-line commuter network has a daily patronage of over 2.4 million passengers and a design capacity of up to 85,000 passengers per hour. Upcoming extension projects include the West Island Line and South Island Line. Preliminary design and environmental impact assessment are scheduled to commence in January of this year and preliminary design will be completed in June. Following negotiations with the Government on the project scope of the West Island Line, cost and implementation program, detailed design and contract procurement will be conducted. Construction of the West Island Line will take four years to complete. MTR is currently discussing the South Island Line project with the Government. The design and statutory processes will take two years to complete, followed by another four years to complete the construction of the South Island Line.

KCRC Planned Projects

Planned KCRC extension projects:

- West East Rail Link – Construction to start in early 2006 with completion set for July 2009.
- Kowloon Southern Link – Planned 3.9 km line.
- Shatin to Central Link – In planning stage. It is not yet approved by the government.

- Northern Link – Construction to commence in early 2006 and set for a July 2008 completion.
- Express Rail Link – Planning stage.

Resources

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Mass Transit Railway Corporation: <http://www.mtr.com.hk>

Kowloon Railway Corporation: <http://www.kcrc.com>

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Landscape Architectural Services (ACE)

Overview

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| | 2003 | 2004 | 2005 (est.) |
|---|--------|--------|-------------|
| Gross Value of Construction Work | 21,800 | 19,722 | 20,708 |
| Consulting fee involved (approx. 1%) | 218 | 197 | 207 |
| Market share for HK and overseas firms (est. 70%) | 153 | 138 | 145 |
| Market share for US firms (est. 30%) | 65 | 59 | 62 |

All figures are in US\$ million, and they are unofficial estimates.

Best Products/Services

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There is a shortage of landscape architects in Hong Kong. Only a few, sizable firms specialize in landscape architectural services, among them, Edaw and Belt Collins from the United States. Hong Kong's landscape architects are trained mostly in Britain, Australia, and New Zealand. Some are trained in Canada and a few in the United States. The University of Hong Kong only started offering landscaping courses several years ago. There are 24 students graduating every two years. Landscape architects trained in Commonwealth countries qualify automatically while those who train elsewhere must undergo assessment by the Hong Kong Institute of Landscape Architects. All landscape architects have to register with the Landscape Registration Board. It is estimated that the private sector and the Hong Kong Government (HKILA) each employ half of the 200 landscape architects in Hong Kong.

Opportunities

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Landscape architects are in short supply at a time when there is a focus by the Hong Kong Government (HKG) to "green" the environment and to increase the number of infrastructure projects, especially tourism-related projects. The HKG's Environmental Impact Assessment Ordinance requires landscape impact studies for infrastructure projects, so landscape architecture services are in demand.

Although some designs are done in-house, the HKG hires private consultants to provide landscape design services, particularly for large projects. It is also common for the HKG to hire a lead architect who will then sub-contract the landscaping portion. U.S.

landscape architecture firms can team up with local architects to provide conceptual design.

Private developers are putting more emphasis on landscaping to enhance the value of their properties in Hong Kong. Most of these developers also invest heavily in hotel, residential and shopping mall projects in Mainland China, where land is more abundant and the demand for landscape architectural services is huge.

The Government is in discussion with several U.S. theme park giants (e.g., Warner Brothers, Six Flags, and Universal Studio) to build additional theme parks on Lantau Island. Golf courses, spas, resorts, watersports centers, boardwalks and bicycle tracks are also on the drawing board for the island, as are a yacht club at Discovery Bay and a Formula Three race track. Tourist attractions that would take advantage of Hong Kong's heritage, local character and natural terrain are also under consideration. These include an eco-tourism center and preserving the Tai O fishing village. The island of Mui Wo, which is near Lantau, will have a facelift that includes possible reclamation to build a waterfront piazza. All of these projects require landscape architecture expertise.

Macau, another Special Administrative Region near Hong Kong, has liberalized its gaming industry. Ultimately, the investment of the gaming concessionaires will amount to US\$14 billion. Las Vegas Sands, Wynn Resorts, and MGM are all making investments in the enclave, which aims to become the Las Vegas of Asia. The construction of theme parks, casinos, a convention center and hotels will increase the demand for U.S. landscape architectural expertise.

Resources

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Major Trade Shows:

Hong Kong International Building Materials & Construction Equipment Fair (Oct 27-30, 2006): <http://www.hkbuildingmaterialsfair.com>

Associations and Related Organizations:

Hong Kong Institute of Landscape Architects
Tel: (852) 2131-8630
Fax: (852) 2131-8609
Address: P.O. Box 20561
Hennessy Road Post Office
Wanchai
Hong Kong
Website: <http://www.hkila.com>
Email: hkilonline@gmail.com

Hong Kong Commercial Specialist's Contact:

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Automotive Parts and Accessories (APS)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|-------|-------|------------------|
| Total Market Size | 574 | 400 | 410 |
| Total Local Production | 198 | 200 | 200 |
| Total Exports | 2,125 | 2,430 | 2,838 |
| Total Imports | 2,501 | 2,629 | 2,899 |
| Imports from the U.S. | 46 | 52 | 55 |

All figures are in US\$ millions. The above statistics are unofficial estimates.

Hong Kong's automotive parts and accessories imports in 2004 reached US\$2.6 billion, a 5 percent increase over 2003. Although the U.S. had only 2 percent of the market share, Hong Kong's imports from the U.S. increased 13 percent from US\$46 million in 2003 to US\$52 million in 2004.

Best Products/Services

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There are potential opportunities to sell high-value and high-technology products into the Hong Kong market for upgrading or enhancing automobile functions, security, safety and enjoyment. For Mainland China, the best selling products are electrical and electronics parts; chassis parts and components; engines and parts; auto safety technology; environmentally friendly and energy saving products; anti-theft products; and tires and tubes.

Opportunities

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Since Hong Kong does not have its own automobile industry, imported automotive parts are mainly for the local aftermarket and re-export markets of Mainland China and other parts of the world. The local after-market for U.S.-made parts remains small, as Japanese and European cars hold 65 percent and 35 percent market shares, respectively. Hong Kong, however, is an important trading hub for automotive parts into Mainland China, which does import U.S. vehicles. In 2004, over 31 percent of Hong Kong's total exports of automotive parts and accessories went into Mainland China, totaling approximately US\$770 million.

Mainland China's automotive/auto parts market

2003 was a watershed year for Mainland China's automotive industry. Sales of new vehicles increased 70 percent over 2002. The Chinese Government has since then undertaken measures to cool the industry down, including the tightening of the automotive loan policy. That being said, Mainland China's vehicle sales still grew by 30 percent in the first half of 2004. The steady increase of vehicle import quotas and a reduction in import tariffs in the beginning of 2005 to 30 percent from the previous 34.3-37.6 percent is expected to increase demand for imported cars.

At the same time, Mainland China's automotive component industry is also enjoying steady growth and is expected to continue as import tariffs continue to decline due to the WTO provision. Statistics showed that Mainland China imported US\$16 billion worth of automotive parts and components in 2004. As many Chinese automotive parts and components manufacturers are still not competitive in terms of quality and reliability, demand for overseas automotive parts and components will continue. Due to its geographical proximity to Mainland China and its experience in Mainland China trade, Hong Kong will continue to be an ideal place for U.S. exporters who would like to sell into Mainland China.

Resources

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Major Trade Shows:

Auto Guangzhou Mainland China, November 2006

Venue: International Automobile Exhibition

Guangzhou, PR China

Tel: 86 (0) 20-8667-3473

Fax: 86 (0) 20-8666-3416

Email: ciff@fairwindow.com

Website: http://www.eventseye.com/fairs/trade_fair_event_7498.html

Automechanika China 2007, November 2007

Venue: China International Exhibition Center, Beijing, China

Mr. Perry Tang, Messe Frankfurt (HK) Ltd., Hong Kong

Tel: (852) 2238-9926

Fax: (852) 2598-8771

Email: perry.tang@hongkong.messefrankfurt.com

Website: <http://www.automechanika.messefrankfurt.com>

Asia International Auto Parts Fair, April 8-11, 2006

Hong Kong Trade Development Council

Venue: AsiaWorld-Expo

Tel: (852) 2584-4333

Fax: (852) 3543-8712

Email: hktcdc@tdc.org.hk

Website: <http://www.hkautopartsfair.com>

Associations/Contacts:

Hong Kong Auto Parts Industry Association

Hong Kong

Tel: (852) 2788-5678
Fax: (852) 2788-5543
Email: autopart@hkpc.com
Website: <http://www.hkapia.com>

Federation of Hong Kong Industry – Automotive Components
Hong Kong
Tel: (852) 2732-3188
Fax: (852) 2721-3494
Email: basil@fhki.org.hk
Website: <http://www.fhki.org.hk>

Hong Kong Productivity Council – Automotive Parts and Components
Hong Kong
Tel: (852) 2788-5437
Fax: (852) 2788-5700
Email: jackso@hkpc.org
Website: <http://www.hkpc.org>

Design Smart Secretariat
Hong Kong Government
Hong Kong
Tel: (852) 2737-2462
Fax: (852) 2992-0763
Email: enquiry@designsmart.gov.hk
Website: <http://www.designsmart.gov.hk>

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Safety and Security Equipment (SEC)

Overview

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Safety & Security Equipment Market in Hong Kong

| | 2003 | 2004 | 2005 (estimated) |
|------------------------|------|-------|------------------|
| Total Market Size | 103 | 126 | 150 |
| Total Local Production | 300 | 350 | 350 |
| Total Exports | 969 | 1,097 | 1,200 |
| Total Imports | 772 | 873 | 1,000 |
| Imports from the U.S. | 39 | 61 | 100 |

All figures are in US\$ million. The above statistics are unofficial estimates.

Sources: Hong Kong Census & Statistics Department
Industry Estimates

Hong Kong is a growing market for safety and security equipment and services. In general, the Hong Kong market leans towards more sophisticated, high-tech products; an area in which U.S. firms enjoy a prominent market share. In 2004, imports for security and safety equipment totaled approximately US\$873 million. After Japan, the U.S. was the second largest supplier of high-tech security products. The European Union was the third major competitor in this area. Mainland China and Taiwan were the market leaders in the low-end technology security market.

Hong Kong – security products sourcing agent for Mainland China

Security is of utmost importance in Beijing's preparations for the hosting of the 2008 Olympic Games. Security arrangements in the construction of Olympic venues and infrastructure facilities are priorities. The Olympic project covers 29 large facilities with a total floor area of over 1.5 million sq. m. Explosives detectors, security alarms and entry-exit control systems will be installed in all of these facilities.

To accommodate the mass influx of tourists during the Beijing Olympics, the number of five-star hotels in Beijing will double to over 800 by 2008. All these hotel development projects require large quantities of fire and security alarms, as well as digital, network and intelligent systems integration products. The infrastructure for the Beijing Olympics will likely be completed before the end of 2006. That is, US manufacturers, contractors and vendors should actively market their products before then.

US companies, however, have to be aware that Tianammen Sanctions against China are still in place. Hong Kong and China continue to be treated as two separate destinations for export control purposes. Certain types of security equipment (especially high-tech items) are subject to the Export Administration Regulations (EAR) that do not require a Commerce Department license for export from the United States to Hong Kong but will require a license for re-export from Hong Kong to China. In most cases a license issued for an export to Hong Kong is valid only for export to Hong Kong. If an item is destined for end-use in China, then a re-export license for China must be obtained from

the Department of Commerce for the export to China. If prior to export from the United States, a US company knows that the item will be re-exported to China, the company can apply for a license for both export to Hong Kong and re-export to China.

Best Products/Services

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- ☐ X-ray scanners
- ☐ Chemical detection systems
- ☐ Rescue equipment
- ☐ Infrared sensors
- ☐ Surveillance equipment
- ☐ Detention equipment
- ☐ Alarms and access controls
- ☐ Identification devices
- ☐ Biometrics
- ☐ Radio frequency wireless technologies

Opportunities

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Hong Kong has been a sourcing agent for Mainland China in terms of security equipment. It re-exported about 25 percent (or US\$230 million) of its total security equipment imports to Mainland China in 2004. Re-exports of security equipment to Mainland China have shown tremendous growth (25 percent in 2004 and 15 percent in 2003). US companies should use Hong Kong as a base for outreach to customers in Mainland China.

This growing trend will continue under the Closer Economic Partnership Agreement (CEPA), which took effect at the beginning of 2004. Not only will this agreement benefit Hong Kong companies, it will open up tremendous new business opportunities for overseas companies, if they partner with or buy into a CEPA-qualified Hong Kong firm. U.S. security equipment manufacturers should note that HS product category 85291010, 85299030, 85299041, 85299049 (radar apparatus, video cameras and digital cameras) are among the categories of products, which will benefit from zero import tariff treatment by Mainland China under CEPA.

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Trade Shows:

GovSec Asia 2006

Date: March 28-29, 2006

Venue: Clearwater Bay Gulf & Country Club

Website: <http://www.govsecasia.com>

Asian Securitex 2006 - Asian International Security, Safety & Fire Protection Show and Conference

Date: June 7-9, 2006

Venue: Hong Kong Convention & Exhibition Center

Website: <http://www.asiansecuritex.com>

Trade Associations:

International Professional Security Association (Hong Kong) Ltd.:

<http://www.ipsa.com.hk>

Asian Professional Security Association: <http://www.apsahk.org>

Hong Kong Commercial Specialist's Contact:

Olevia Yim

Email: olevia.yim@mail.doc.gov

Tel: (852) 2521-6166; Fax: (852) 2810-0970

Green Building Materials (BLD, ACE, CON)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|------|------|------------------|
| Total Market Size | 86 | 91 | 95 |
| Total Local Production | N/A | N/A | N/A |
| Total Exports | 110 | 115 | 121 |
| Total Imports | 196 | 206 | 216 |
| Imports from the U.S. | 17 | 18 | 19 |

All figures are in US\$ million, and they are unofficial estimates.

Best Products/Services

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There has been a growth in the usage of environmentally friendly building products during the last five years. One reason is that developers find “green” features economical in the long run, despite their initial higher installation costs. Another is that they help attract multinational corporate tenants. Government incentives and brand building concerns are also contributing factors.

Best sales prospects include those products that help to save energy, recover heat, reduce waste or maintenance needs, improve indoor air quality or come from sustainable sources. Twenty to thirty percent more green buildings have been built in Hong Kong in the past five years. T5 lamps, variable speed pumps, heat recovery systems, service-on-demand features, advanced window glazings and motion sensors have become more common. Building integrated photovoltaic panels also are becoming popular. The market for green building products has great potential.

Hong Kong re-exports over 50 percent of its imports to Mainland China. U.S. companies should take advantage of Hong Kong’s strategic location and its ties with Mainland China to penetrate the Mainland China market.

Opportunities

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Government regulations are playing a pivotal role in shaping the design of residential buildings in Hong Kong. Balconies and sky gardens are now a feature of many new homes. They were not so common in projects completed before 2001. The government provides incentives to encourage developers to adopt green building features and construction methods to reduce waste. The incentive exempts green features from the calculation of the gross floor area of a property, which grants developers extra floor space to boost the market value of properties.

On the private-sector front, there is a voluntary certification scheme that began in 1996 called the Hong Kong Building Environmental Assessment Method (HK-BEAM). HK-BEAM recognizes improved environmental performance in building design and management. Through May 2005, there have been 100 buildings or over 60 million square feet of floor space assessed by HK-BEAM. These include 52,000 residential units, equivalent to the homes of 150,000 people or slightly over 2 percent of Hong Kong population. The numbers make HK-BEAM the most widely used scheme of its kind in the world on a per capita basis.

In August 2005, the Hong Kong Government's Building Department also launched CEPAS (Comprehensive Environmental Performance Assessment Scheme), a new buildings' rating system. The scheme is voluntary, rating buildings on a "five-star" grading system. The rating system is based on 34 criteria in eight categories, ranging from hygiene and ventilation to waste management and cultural preservation during the design and construction stage. The best buildings will be given a platinum label. The other grades are gold, silver, bronze and unclassified. The certificate will be valid for five years. This system is meant to become a benchmark for all construction in Hong Kong, making environmental awareness a business plus.

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Major Trade Shows:

Asia Building Technologies 2006 (June 7-9 2006): <http://www.asianbt.com/>

Hong Kong International Building Materials & Construction Equipment Fair (Oct 27-30, 2006): <http://www.hkbuildingmaterialsfair.com>

Associations:

Hong Kong Professional Green Council: <http://www.hkpgbc.org/>

US Stainable Development Strategy: <http://www.susdev.org.hk/>

Hong Kong Commercial Specialist's Contact

Elanna Tam

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Tel: (852) 2521-5950; Fax: (852) 2845-9800

Cosmetics and Toiletries (COS)

Overview

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| | 2003 | 2004 | 2005 (estimated) |
|------------------------|------|-------|------------------|
| Total Market Size | 519 | 646 | 816 |
| Total Local Production | 45 | 50 | 53 |
| Total Exports | 423 | 480 | 528 |
| Total Imports | 897 | 1,076 | 1,291 |
| Imports from the U.S. | 113 | 123 | 135 |

All figures are in US\$ million.

Imported cosmetics and toiletries meet 95 percent of local demand, as there is very little domestic production. Hong Kong's cosmetics and toiletries imports totaled US\$1,076 million in 2004. Mainland China was the largest supplier with a 19 percent market share, followed by Japan (12 percent,) France (12 percent,) and the U.S. (11 percent.) Imports from the U.S. totaled US\$123 million in 2004. U.S. cosmetics and toiletries suppliers are known for innovative product development, and for producing quality, and safe products at competitive prices.

Hong Kong consumers prefer imported cosmetics and U.S. exporters face keen competition from Japan and Europe. To maintain their competitiveness, U.S. suppliers have begun focusing their marketing efforts on products that Asian consumers favor, especially skin-whitening and anti-aging facial treatments used in professional skin care salons; and on marketing through dermatologists' clinics.

Best Products/Services

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Products with the best sales prospects in Hong Kong:

- Complete line of facial whitening products that contain sun-screens and facial skincare products that contain Vitamin C, and AHA.
- Hair coloring products, and colored hair extensions.
- Color cosmetics for eyes, lips and face, including permanent make-up for eyes.
- Nail colors, nail-care products, and artificial nails.
- Skin treatments, slimming treatments and massage products for use in spas and professional skincare salons or under dermatologists' supervision, especially facial products for use in post-IPL and post-"Thermage" procedures.

Opportunities

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Tourism, the territory's second largest earner of foreign exchange, also provides a substantial market for cosmetics and toiletries. Tourists coming to Hong Kong, especially from Mainland China, are spending more on cosmetics and perfumes. The Chinese Central Government implemented the Individual Visit Scheme for travel to Hong Kong in July 2003, allowing Mainland Chinese to visit Hong Kong without having to join tour groups. As a result, 12 million Mainland Chinese visited Hong Kong in 2004. For 80 percent of the Mainland Chinese tourists that visit Hong Kong, cosmetic and skincare products are among their top 3 purchases. Hong Kong offers a wider choice of brands and retail prices are 30 percent lower than those in Mainland China. Also, the Hong Kong Tourism Board's Quality Tourism Services (QTS) Scheme ensures that its members (of which there are 19 cosmetics retailers) provide genuine products. QTS-accredited shops must pass stringent assessments each year to show that they provide genuine products with clearly displayed prices, product information and superb customer service before they are allowed to display the QTS sign prominently in their shops. The renowned international American, French, and Japanese brands of cosmetics and skincare products are most popular with the Mainland Chinese tourists. As such, for many international cosmetics brands, Hong Kong increasingly represents a launch pad into the Chinese market; it creates the trends and acts as a showcase for the Chinese consumers.

To assist U.S. exporters, the U.S. cosmetics industry organizes a pavilion at the annual Cosmoprof Asia Show. U.S. companies have had tremendous success at this show. Hong Kong is an important entrepot for regional trading of cosmetics products, especially for re-exports to Vietnam and Mainland China. Many U.S. companies sell their cosmetics and skincare products to Mainland China through their Hong Kong distributors.

There are no tariffs on imported cosmetics and toiletries. Hong Kong accepts U.S. product labeling and there are no local mandatory labeling or registration requirements on cosmetics.

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Major Trade Show:

Cosmoprof Asia 2006; total exhibitors: 1,002 in 2005 (highest in 10 years), and total number of visitors in 2005: 40,000.

This has been Asia's largest, most comprehensive and international beauty industry trade show for the past 10 years. It is the Asian version of the world's best beauty industry trade show, Cosmoprof, held annually in Bologna, Italy for the past 37 years. The trade show features equipment, products (skin care, cosmetics, personal care products, nail products, perfumes & toiletries, cosmetic raw materials) packaging, and training services in the beauty industry: hairdressing, spas, beauty and skincare salons. Website for the show: <http://www.cosmoprof-asia.com>. Under the U.S. Department of Commerce's "Asia Now" program, U.S. exhibitors at this show receive free market research and can enjoy the buyers' matching and counseling services of 15 U.S. Commercial Service offices in the Asia Pacific region. At Cosmoprof Asia 2005, the U.S. Commercial Service offices in Singapore, the Philippines, Taiwan, and Pakistan recruited more than 70 buyers to meet the U.S. exhibitors.

Associations and Related Organizations:

The Cosmetic & Perfumery Association of Hong Kong Ltd.

<http://www.cosmetic-pefume.com>

A listing of the Association's members comprising contact details of importers, distributors, wholesalers, and retailers is available at this website.

International Cosmetics (Asia Pacific) Joint Development Centre

<http://www.icdjc.com>

Provides consultancy on regulatory requirements and licensing issues in Mainland China, technical support on product development, product testing and quality control services, provides training for cosmetics chemists, and assistance in setting up laboratories.

Hong Kong Commercial Specialist's Contact:

Swee-keng Cheong (Miss)

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Tel: (852) 2521-5233; Fax: (852) 2845-9800

Total U.S. agricultural exports to Hong Kong reached US\$1 billion in 2004. This ranks Hong Kong as the 10th largest market for U.S. agricultural products. Hong Kong is also an important market for consumer-oriented products, ranked as the 8th largest market for such items as fresh fruits and vegetables, poultry and meat products.

Of all U.S. agricultural exports to Hong Kong, hides & skins, fresh fruit, poultry meat, processed fruit and vegetables, tree nuts, and hardwood lumber are the leading items. Fresh fruit topped the list of U.S. food exports to Hong Kong in the first ten months of 2005, reaching a value of US\$109 million. Hong Kong was the fifth largest market for U.S. fruit exports. Popular items include oranges, apples and grapes. Chicken meat exports to Hong Kong are still a star performer as Hong Kong consumers continue to enjoy U.S. chicken wings, feet, franks and leg quarters. U.S. red meat and meat products had been temporarily suspended by the Hong Kong Government since the single positive case of Bovine Spongiform Encephalopathy (BSE) was identified in the State of Washington in December 2003 from a cow that originated in Canada. The U.S. Government then had been actively engaged in explaining to the Hong Kong Government the high safety standards applied to U.S. food, including red meat. The Hong Kong Government subsequently lifted its temporary restrictions on U.S. beef in late December 2006. U.S. beef exports are expected to once again be one of the leading export items to Hong Kong.

The U.S. is the largest supplier of cotton, well known to the market for its high quality with very little contamination, along with hardwood lumber and hides and skins. Almost all of these agricultural products are exclusively re-exported to Mainland China.

| U.S. EXPORTS OF AGRICULTURAL, FISH & FORESTRY PRODUCTS TO HONG KONG Calendar Year 2001 - 2004 and Year-to-date figures (in thousands of U.S. dollars) Export Market: Hong Kong | | | | | |
|--|---------|---------|----------|---------|-------------------|
| Product | 2001 | 2002 | 2003 | 2004 | 2005 Jan - Oct |
| Hides & skins | 143,588 | 137,010 | 197,485* | 166,859 | 117,523 |
| Fresh fruit | 170,014 | 165,064 | 164,850 | 121,783 | 109,187 |
| Cotton | 74,179 | 63,115 | 66,240 | 60,788 | 57,633 |
| Poultry meat | 220,828 | 191,041 | 120,639 | 79,086 | 52,767 |
| Processed fruit & vegetables | 56,462 | 53,332 | 42,307 | 48,906 | 41,209 |
| Hardwood lumber | 82,630 | 86,900* | 70,870 | 65,802 | 37,456 |
| Tree nuts | 54,876 | 59,970 | 57,527 | 67,550* | 33,443 |

| |
|---|
| Note: * Denotes highest export levels since at least CY 1970 |
|---|

Hong Kong's agricultural import market continues to command the attention of producers, manufacturers, processors and exporters of U.S. agricultural products, due to several factors, including:

1. the absence of trade barriers to agricultural products other than alcoholic beverages and processed tobacco products,
2. a strategic location next to the potentially enormous Mainland China market, frequently resulting in "unofficial" re-exports subject to low or no duties, and
3. a highly-developed marketing system and affluent consumers who demand high value imports. Per capita income (US\$24,200 in 2004) in Hong Kong is among the highest in Asia, with a significant portion of income spent on food.

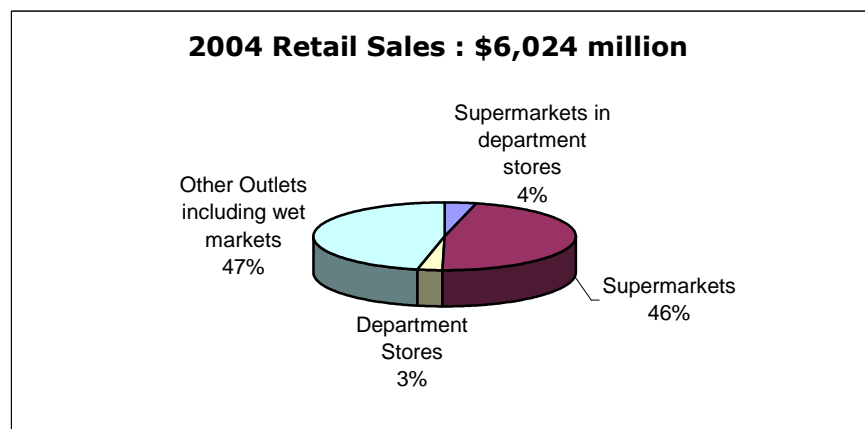
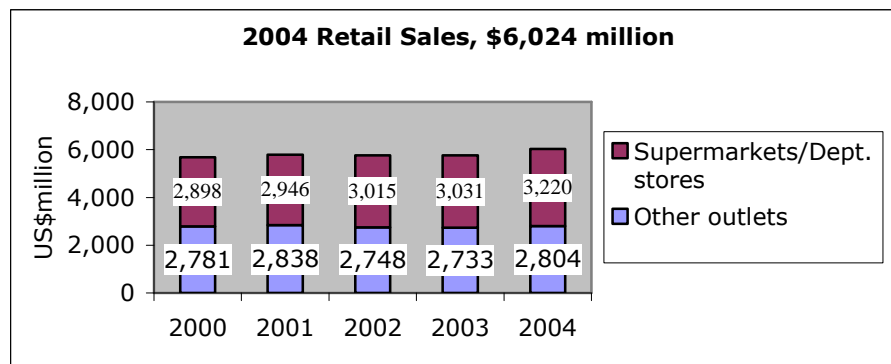
Although Hong Kong's unemployment rate dropped from over 8 percent in 2003 to 5.3 percent in November 2005, the economic downturn in recent years has affected consumers' eating and shopping habits. Whereas most people used to eat out frequently, more are now shopping for groceries and preparing more meals at home, or eating meals at low-end or fast food restaurants. Hong Kong's relatively sophisticated shoppers are becoming even more health conscious. Shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. Demand for grocery store products, meats, poultry, eggs and fresh fruit continues to be very strong. Although still a small segment of the overall market, natural and organic food and beverages are also becoming more popular.

- After more than five years of decline, the monthly consumer prices rose again from July 2004 onwards. In the first eleven months of 2005, consumer prices posted a modest gain of 1 percent.
- Tourist arrivals increased by 40.4 percent to 21.8 million in 2004 and 7.5 percent to 19 million for the first 10 months of 2005. Hong Kong Disneyland, which was opened in September this year, has become a popular tourist attraction. In the coming year, the Tung Chung Cable Car System, Hong Kong Wetland Park and 23 hotel projects will be completed. All these are favorable factors for tourism growth. In 2004, tourists spent \$1,052 million in restaurants other than meals taken in hotels, accounting for 14 percent of Hong Kong's HRI business. As such, a robust tourism not only has the merit of stimulating a series of peripheral businesses but also has a positive direct impact on HRI revenue.

Retail Sales and Outlets

- Total retail sales of food and drinks in Hong Kong for 2004 reached \$6 billion. For January - Oct 2005, retail sales of food, alcoholic drinks, and tobacco for traditional markets and supermarkets, increased 4.6 percent and 6.1 percent respectively, compared with the same period last year. The sentiment for spending is promising.

- Retail establishments in 2003 amounted to approximately 15,527, which included (1) 99 supermarkets and convenience store establishments (including retail outlet branches, estimated at about 900) and (2) 15,428 wet market stalls and “mom and pop” shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. However, sales in supermarkets are increasing. The supermarkets' share in terms of retail sales have risen from 44 percent of total sales in 1995 to 53 percent in 2004. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets. In 2000, only \$524 million worth of fresh/chilled meat, fish, fruit and vegetables and frozen food were sold in supermarkets. The sales values of the same category in supermarkets greatly expanded to \$629 million in 2004, increasing 20 percent over 2000.



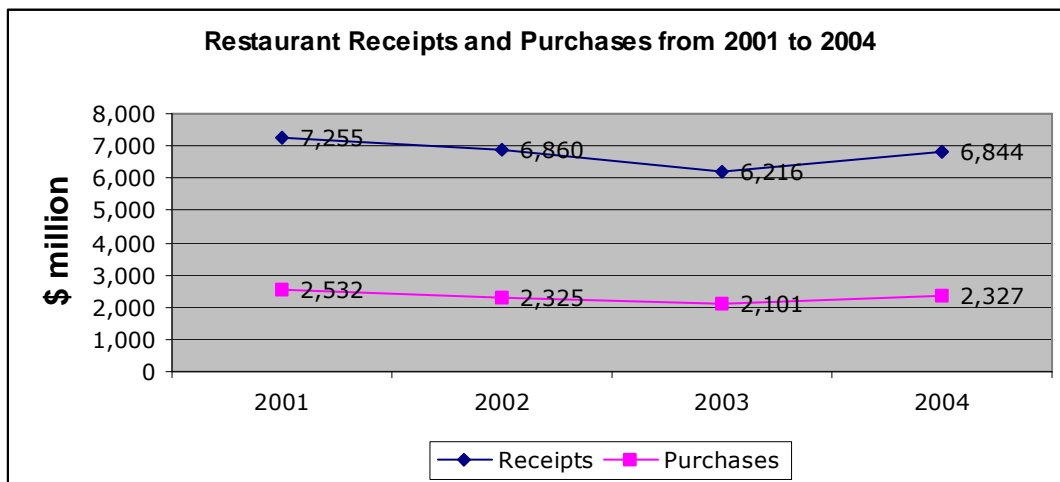
- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have installed air conditioning and provide free shuttle service to nearby residential areas. In the next few years, the Hong Kong Government has

earmarked over \$77 million to improve the environment of wet markets. Meanwhile, more and more supermarkets have been renovated to make sales of fresh meats possible and to enhance the overall experience of the convenience of shopping at a supermarket.

HRI Food Service Sector

Restaurants

- A revived economy with burgeoning tourism, and rising stock and property markets have attributed to the good performance of the catering industry for 2005. The HRI business is expected to have growth in 2006, with many positive economic indicators.
- Restaurant businesses in 2004 recovered greatly from 2003 when Hong Kong suffered severely from the impact of SARS. In 2004, the value of total receipts for the restaurant sector was \$6.8 billion and for purchases was \$2.3 billion, representing a rise of 10 percent and 11 percent, respectively. For the first nine months of 2005, total restaurant receipts amounted to \$5.4 billion, representing a rise of 5.3 percent over the same period in 2004.



Source: Quarterly Restaurant Receipts and Purchases produced by the Hong Kong Census & Statistics Department

- Hong Kong is renowned as the “Culinary Capital of Asia”. It has approximately 11,094 restaurants and other eating-places, providing a wide range of dining options. Eating out is a way of life for many locals.
- Chinese food, in particular Cantonese style cuisine tends to dominate the restaurant sector. This is evident in that Chinese restaurants account for nearly 50 percent of the 11,094 restaurants in Hong Kong.

| | No. of Establishments | Percentage (by number) | Percentage (by receipts) |
|---|-----------------------|------------------------|--------------------------|
| Chinese restaurants | 5,491 | 50 | 48 |
| Restaurants, other than Chinese restaurants | 3,590 | 32 | 26 |
| Fast food shops | 1,026 | 9 | 19 |
| Bars | 485 | 4 | 4 |
| Eating and drinking places | 502 | 5 | 3 |
| Total | 11,094 | 100 | 100 |

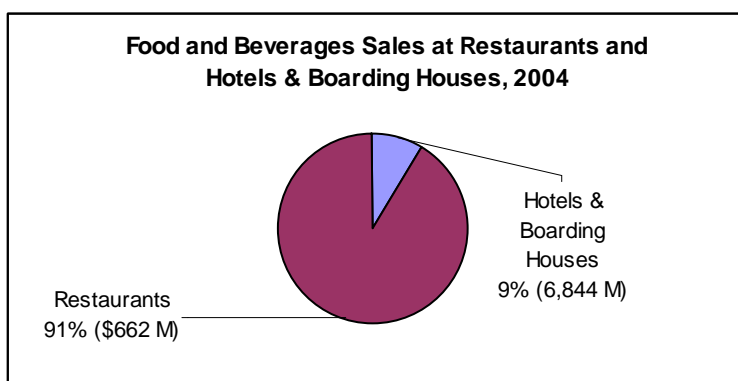
Source: Hong Kong Census & Statistics Department

- Local Chinese in their 30's have a greater propensity to eat Western style food and are more likely to experiment with non-traditional styles. The growth of non-Chinese chains in Japanese food, fast food, coffee and snack and casual dining establishments has been evident.
- McDonald's, Dominos, Pizza Hut, Kentucky Fried Chicken, Hardee's, Starbucks, Pacific Coffee and others have all grown rapidly in numbers over the past years and now have become fixtures in the Hong Kong market. California Pizza Kitchen (CPK) was opened in Hong Kong in 2003.
- The fastest developing sector of the restaurant market is in fast food outlets. According to a survey conducted by AC Nielsen, Hong Kong residents are the world's most frequent patrons of fast food restaurants. The survey revealed that 61 percent of people in the territory eat at a fast food restaurant at least once a week. The popularity of fast food in Hong Kong was mainly due to convenience. The survey showed that the most popular fast food chains in Hong Kong are McDonald's, Kentucky Fried Chicken and Pizza Hut.
- As consumers are getting more health conscious, fast food chains have provided healthier menu items, such as salads, premium juice drinks, etc.
- The major Hong Kong fast food operators, Café De Coral, Maxim's and Fairwood, have innovated their menus by introducing numerous new ingredients as consumers have become more demanding. These fast food operators are also renovating their older restaurants and adding "cyber corners" to give them a more upscale look, in order to create the perception of more value in patrons' minds. The average spending in fast food outlets is HK\$33.90 for dinner, HK\$25.50 for HK\$18.20 for breakfast and HK\$16.60 for afternoon tea. (U.S.\$1.00 = HK\$7.78)
- Exporters should note that tastes in food can often differ between Chinese and Western consumers. Exporters looking to grow business with the HRI trade should focus on U.S. ingredients for Chinese dishes.
- Another key feature of Hong Kong's HRI is the increasingly competitive coffee shop market in Hong Kong, with new outlets opening around the city. In recent years, it is a trend to open upstairs cafes in order to cut rental fees. They are largely located in commercial areas. While Westerners will stand up and drink a coffee, Chinese people in the Hong Kong market want to sit down and take their

time over their sandwich or cup of coffee. Starbucks (50 stores) and Pacific Coffee (39 stores) are Hong Kong's two largest coffee shop chains. Reportedly, the average monthly profit of each Pacific Coffee store amounted to US\$2,580. Starbucks is believed to have an even higher profit margin. McDonald's has also vigorously expanded its McCafe outlets in order to take a slice of this market.

Hotels

- There are 101 hotels and 440 boarding houses in Hong Kong with approximately 39,128 and 5,234 rooms respectively. The average occupancy rate per hotel is 88 percent and per boarding houses is 83 percent.
- In 2004, hotel and boarding houses receipts totaled \$1,853 billion and \$72 billion respectively. About 34 percent of receipts came from food and beverage sales i.e. \$662 million.



- Many five-star hotels serve exclusively U.S.-origin beef, chicken, turkey, eggs, and a wide assortment of U.S.-origin fruits and vegetables. Out of the 101 hotels, about 17 classified as "high tariff A hotels".
- The government provides a searchable list of licensed Hotels & Guest Houses at <http://www.hadla.gov.hk/>. A list of Hong Kong hotels is available at http://www.discoverhongkong.com/eng/mustknow/search/mk_sear_resu.jsp

Institutions

- Institutional market segments of significance include schools, hospitals, and airlines.
- The institutional catering sector is predominantly handled by a small number of large groups that are generally aligned with the restaurant sector.
- The Hospital Authority operates 42 hospitals with a total of 29,500 beds and 1.2 million in-patients annually. These hospitals' catering services are procured by tender.

- There are 759 primary schools with a total number of 447,137 students. School lunch boxes are commonly made available at schools for students. The typical lunch box consists of a meat dish and rice. Healthy eating programs are underway to encourage a change in eating trends for schools. Caterers have to register with the Hong Kong Food and Environmental Hygiene Department (FEHD) before they are eligible to bid on tenders provided by individual schools.
- The Agricultural Trade Office Hong Kong can provide U.S. exporters with the list of registered caterers for school lunch boxes.
- There are three aircraft catering franchisees at the Hong Kong International Airport, each with a 15-year term, supplying more than 58,000 in-flight meals per day. The aircraft caterers provide a comprehensive range of flight catering services. These services include the preparation and assembly of flight meals, loading onto aircraft and unloading of food and other catering loads, and the storage of catering equipment and supplies.

Opportunities are also available for U.S. exporters to gain exposure to the Hong Kong/Mainland China market via the following Food and Beverage Trade Shows that take place each year in Hong Kong:

- Restaurant & Bar 2006 (May 9-11, 2006): <http://www.restaurantandbarhk.com>
- HOFEX 2007 (May 13-16, 2007): <http://www.hofex.com>

Contact the U.S. Agricultural Trade Office – Hong Kong for more information on Great American Food!

Agricultural Trade Office
 18/F, St. John's Building
 33 Garden Road, Central
 Hong Kong
 Tel: (852) 2841-2350
 Fax: (852) 2845-0943
 Email: atohongkong@usda.gov
 Website: <http://www.usfoods-hongkong.net>

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Chapter 5: Trade Regulations and Standards

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Import Tariffs

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Hong Kong imposes no tariffs on general imports, with the exception of four categories of goods: liquors, tobacco, hydrocarbon oil, and methyl alcohol. As of January 2006, for example, the rate for wine was 80 percent, and the rate for gasoline was US\$0.78 per liter. The current list of dutiable goods and corresponding rates is available at: http://www.customs.gov.hk/eng/major_dutiable_freeport_e.html. In addition, a steep "First Registration Tax," which ranges from 35 to 100 percent of the price, is levied on new car purchases.

To inquire about specific products contact:

Customs and Excise Department
8/F, Harbour Building
38 Pier Road, Central
Hong Kong
Tel: (852) 2852-3324
Fax: (852) 2542-3334 (Dutiable Commodities Division)
Website: <http://www.customs.gov.hk>

Trade Barriers

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Hong Kong is a duty-free port, with few barriers to trade in goods and services and few restrictions on foreign capital flows and investment.

Import Requirements and Documentation

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U.S. standard trade documentation is acceptable.

U.S. Export Controls

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Hong Kong maintains an effective, highly autonomous and transparent export control regime that the U.S. Government has encouraged others to emulate. The United States continues to provide Hong Kong importers the same level of access to controlled dual-use U.S. technologies as before reversion. The Hong Kong Government imposes restrictions on the import and export of high-technology products, mirroring the control lists of the internationally observed multilateral export control regimes (Wassenaar, MTCR, Australia Group and, as of early 2004, the Chemical Weapons Convention). Hong Kong has also adopted catch-all export license provisions that cover exports and re-exports to entities and institutions involved in promoting the production of weapons of mass destruction. This includes restrictions on unlicensed re-exports from Hong Kong to Mainland China. A caution to U.S. exporters: Hong Kong has not adopted U.S. unilateral export controls, but the U.S. Government will penalize U.S. firms involved in transactions covered by U.S. unilateral controls where the goods transiting Hong Kong go to countries or entities sanctioned by U.S. export control laws.

With the January 1, 2005 elimination of all remaining quotas on textile and apparel imports from WTO members, Hong Kong textile and apparel exports are no longer subject to quantitative restrictions.

Temporary Entry

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Most products are not subject to any Hong Kong duties or taxes. For alcohol, cigarettes and fuel, however, companies must fill out a duty waiver form, which can be obtained from Hong Kong Customs at <http://www.customs.gov.hk>.

Labeling and Marking Requirements

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Non-tariff barriers such as labeling requirements, standards, etc. are minimal.

Prohibited and Restricted Imports

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The import of munitions, firearms and fireworks are strictly forbidden.

Customs Regulations and Contact Information

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Customs valuation is only an issue for the taxable items listed above. The tax on tobacco is by quantity: HK\$804 for every 1,000 cigarettes, and HK\$1,035 per

kilogram for cigars. The tax on distilled spirits is 100 percent, wine 80 percent and beer 40 percent. The tax on petroleum products is by both volume and value. The value is based on the bill of lading as long as it represents a reasonable market value. The tax on automobiles is based on both retail price and engine size.

For more information about Hong Kong customs regulations, please check the Hong Kong Customs and Excise Department's website at <http://www.customs.gov.hk>.

U.S. Immigration and Customs Enforcement (formerly U.S. Customs Service) maintains an office in Hong Kong. It can be contacted at:

U.S. Immigration and Customs Enforcement
American Consulate General
26 Garden Road, Central
Hong Kong
Inquiry Hotline: (852) 2524-1136
Fax: (852) 2810-6550

Standards

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Overview

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Hong Kong's policy, in accordance with the World Trade Organization (WTO) Agreement on Technical Barriers to Trade, is to adhere to international standards to the maximum extent possible. Hong Kong regulatory agencies adopt standards as and when necessary, and they generally avoid using standards to dictate market development or protect certain sectors of the economy.

The APEC (Asia-Pacific Economic Cooperation) Sub-Committee on Standards and Conformance (SCSC) has agreed that APEC member economies would complete the alignment of domestic standards in eight priority areas in stages by 2008. The standards included in the alignment program and Hong Kong's position as of 2003 can be found at www.standard.gov.hk/eng/alignment.htm

Standards Organizations

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Hong Kong does not have a central standards body that develops and implements domestic standards. More information on standards used in Hong

Kong is available from the Standards, Regulations and Conformity Assessment Database. (<http://www.standard.gov.hk/standard/eng>)

The Product Standards Information Bureau (PSIB) of the Innovation and Technology Commission (ITC) represents Hong Kong in the APEC Sub-Committee on Standards and Conformance (SCSC), the International Organization for Standardization (ISO) and the Pacific Area Standards Congress (PASC). The Hong Kong Accreditation Service of ITC actively participates in the Pacific Accreditation Cooperation (PAC), Asia Pacific Laboratory Accreditation Cooperation (APLAC), International Accreditation Forum (IAF) and International Laboratory Accreditation Cooperation (ILAC). In addition, the Standards and Calibration Laboratory of ITC is a full member of the Asia Pacific Metrology Program and an Associate of the General Conference of Weights and Measures (CGPM) of the Metre Convention, while the Customs and Excise Department is a Correspondent Member of the International Organization of Legal Metrology (OIML) and a Member of the Asia Pacific Legal Metrology Forum (APLMF). The Office of the Telecommunications Authority also sends its officers to attend meetings of the International Telecommunications Union (ITU).

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Conformity Assessment

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Hong Kong has a comprehensive range of conformity assessment services including testing, calibration, certification and inspection. The majority of such services are provided by the private sector. Compliance is certified through third party accreditation.

Product Certification

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The Hong Kong Accreditation Service (HKAS) of the Innovation and Technology Commission (ITC) manages a program called the "Hong Kong Laboratory Accreditation Scheme (HOKLAS)," which is a program open to voluntary participation from any Hong Kong laboratory that performs objective testing and calibration falling within the scope of the Scheme and meets the HOKLAS criteria of compliance. HOKLAS has concluded mutual recognition agreements/arrangements (MRA) with forty-eight laboratory accreditation bodies in thirty-seven countries, including the United States.

Mutual Recognition Agreements/Arrangements

Every effort is made to promote acceptance of test data from accredited laboratories, both internationally and locally. HOKLAS has signed the following types of mutual recognition agreements/arrangements.

HOKLAS currently has bilateral agreements with six overseas national laboratory accreditation programs – NATA of Australia, RvA of the Netherlands, IANZ of New Zealand, SAC of Singapore, UKAS of United Kingdom and A2LA of the United States.

HOKLAS also has a bilateral group agreement with the European Co-operation for Accreditation (EA). This agreement with the EA multilateral agreement group in effect means HOKLAS accepts accreditation from the following national programs – BMwA of Austria, BKO/OBE and BELTEST of Belgium, CAI of the Czech Republic, DANAK of Denmark, FINAS of Finland, COFRAC of France, DAR of Germany (including DACH, DAP, DASMIN, DATECH and DKD), NAB of Ireland, ISRAC of Israel, SIT and SINAL of Italy, LA of Lithuania, RvA of the Netherlands, NA of Norway, IPQ of Portugal, SNAS of Slovakia, ENAC of Spain, SWEDAC of Sweden, SAS of Switzerland and UKAS of the United Kingdom.

As a member of the Asian Pacific Laboratory Accreditation Co-operation (APLAC) Multilateral Mutual Recognition Agreement, HOKLAS accepts accreditation from NATA of Australia, SCC of Canada, NABL of India, KAN of Indonesia, JAB and IA Japan of Japan, KOLAS of Korea, IANZ of New Zealand, CNAL of the People's Republic of Mainland China, SAC-SINGLAS of Singapore, CNLA of Taiwan, VILAS/STAMEQ of Vietnam and A2LA, ICBO and NVLAP of the United States.

HOKLAS is one of the signatories of the International Laboratory Accreditation Cooperation (ILAC) Multilateral Mutual Recognition Agreement signed in Washington, D.C. on November 2, 2000 at the General Assembly of the ILAC. This arrangement, which involves 33 accreditation bodies from 26 countries, authorizes signatory countries to accept test results issued by a laboratory that is accredited by any of the other signatory countries of the Arrangement.

The following areas have special regulations, standards and conformity assessment mechanisms: animals and plants (sanitary and phytosanitary); boilers and pressure vessels, building materials, chemicals (pesticides); consumer goods, drugs and medical devices, electrical products, energy, environment, food, information technology equipment, radioactive substances and irradiating apparatus, shipping safety, toys and children's products, and transport equipment. Please visit the following website for specific product regulations and standards:

<http://www.standard.gov.hk/standard/eng/database.htm>.

Accreditation

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The Hong Kong Accreditation Service (HKAS), a government organization set up in 1998, provides accreditation for laboratories, certification bodies and inspection bodies. HKAS operates three accreditation programs - Hong Kong Laboratory Accreditation Scheme (HOKLAS) for laboratories, Hong Kong

Certification Body Accreditation Scheme (HKCAS) for certification bodies, and Hong Kong Inspection Body Accreditation Scheme (HKIAS) for inspection bodies. HOKLAS was launched in 1985, HKCAS was launched in 1998, and HKIAS was launched in 1999. Participation in these programs is voluntary.

HKAS participates in a number of mutual recognition arrangements. It is a member of the International Accreditation Forum (IAF), International Laboratory Accreditation Cooperation (ILAC), Pacific Accreditation Cooperation (PAC) and Asia Pacific Laboratory Accreditation Cooperation (APLAC).

Contact information for HKAS:
Hong Kong Accreditation Service
Quality Services Division
Innovation and Technology Commission
36/F, Immigration Tower
7 Gloucester Road, Wan Chai
Hong Kong
Tel: (852) 2829-4840
Fax: (852) 2824-1302
Email: hkas@itc.gov.hk
Website: www.info.gov.hk/itc/eng/quality/hkas

Publication of Technical Regulations

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Technical regulations are proposed and passed by respective relevant government departments. There may or may not be public consultation before each regulation is passed, depending on the specifics of that particular technical regulation.

Information on Hong Kong's technical regulations can be obtained from the following website: <http://www.standard.gov.hk/standard/eng/alignment.htm>.

Technical regulations are published in the Government of the Hong Kong Special Administrative Region Gazette.

For information about a subscription to the Government of the Hong Kong Special Administrative Region Gazette, contact:

Information Officer, Publications Sales Section
Information Services Department
Email: puborder@isd.gov.hk
Website: www.isd.gov.hk/eng/publication.htm#gaze

Labeling and Marking

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Food products, such as milk, pre-packaged food, beverages, and frozen confections, need to be legibly marked or labeled in either the English or Chinese language, or in both languages. The label/markings need to include the full company name and address or details of the registered or principal office of the

manufacturer or packer. It also must have the food's name or designation, list of ingredients, composition or contents, with the net weight or net volume, and indication of "Best before" or "Use by" date. Statements of special conditions for storage or instructions also need to be legibly marked or labeled.

Pharmaceuticals and over-the-counter (OTC) drugs must have indications of dosage and frequency on the label in both Chinese and English.

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Hong Kong central contact point:

Innovation and Technology Commission
Executive Administrator, Hong Kong
Accreditation Service
36/F, Immigration Tower
7 Gloucester Road, Wan Chai
Hong Kong
Tel: (852) 2829-4867
Fax: (852) 2583-9371, 2824-1302
Email: psib@itc.gov.hk
Website: www.info.gov.hk/itc/psis

For regulatory contact points, please refer to the following website:
<http://www.itsd.gov.hk/standard/eng/contact.htm>.

Point of contact at the Commercial Service for standards issues:

Fanny Chau
Email: fanny.chau@mail.doc.gov
Tel: (852) 2521-3721; Fax: (852) 2845-9800

Trade Agreements

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Hong Kong is a founding member of the World Trade Organization (WTO) as well as a member of the Asia-Pacific Economic Cooperation (APEC).

With Mainland China's accession to the WTO, Hong Kong is well positioned to play a key role for U.S. firms wishing to expand exports to one of the world's fastest-growing markets. Hong Kong is a trading hub for Mainland China and the region; its trading firms are experts at promoting U.S. products and services in Mainland China. Similarities in linguistic and cultural traditions have enabled Hong Kong traders to maximize opportunities for U.S. firms, and in particular for small and medium-sized enterprises and first-time exporters.

On June 29, 2003, Hong Kong and Mainland China signed the Closer Economic Partnership Arrangement (CEPA), a free trade agreement granting Hong Kong's manufacturers export to Mainland China free of Mainland Chinese tariffs and granting

Hong Kong's service suppliers preferential access to the Mainland Chinese market. CEPA was implemented on January 1, 2004, providing tariff-free treatment for Hong Kong-origin goods in 374 categories as well as preferential access to 18 Mainland service sectors. Preferential access for five types of value-added telecommunications services was implemented on October 1, 2003.

Hong Kong and Mainland China signed the second phase of CEPA on August 27, 2004 to liberalize further trade in goods and services. As of January 1, 2005, Hong Kong-origin goods in 529 additional categories will be exported to Mainland China tariff-free; as of January 1, 2006, another 184 products will enjoy this treatment. Additionally, starting from January 1, 2005, Hong Kong service providers will enjoy preferential treatment in eight new service sectors.

The third phase of CEPA takes effect in 2006. As a result, all Hong Kong-origin goods will enjoy tariff-free access to Mainland China and service providers in 27 sectors (e.g. logistics and distribution) will enjoy preferential treatment.

In order to qualify as a Hong Kong company under CEPA, the company, including a subsidiary of a foreign company, must incorporate in Hong Kong, have been engaged in substantial business operation here for more than three years, and employ at least half its staff in Hong Kong. In addition, foreign companies that acquire or merge with a Hong Kong company on or after June 29, 2003, qualify under CEPA to be a Hong Kong company after one year of operation.

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Hong Kong Accreditation Service: <http://www.info.gov.hk/itc/eng/quality/hksa>

Hong Kong Customs and Excise Department: <http://www.info.gov.hk/customs>

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Chapter 6: Investment Climate

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Openness to Foreign Investment

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Hong Kong pursues a free market philosophy, and there is minimum government interference in the economy. The Hong Kong Government welcomes foreign investment. It offers neither special incentives nor does it impose disincentives for foreign investors. Hong Kong's well-established rule of law is applied consistently and without discrimination. There is no distinction in law or practice between investments by foreign-controlled companies and those controlled by local interests. Hong Kong is a member of the World Trade Organization in its own right and a separate customs territory. Hong Kong is a duty free port, except for a small number of tariffs on products such as cigarettes and alcohol. There are no quotas or dumping laws.

Foreign firms and individuals are allowed freely to incorporate their operations in Hong Kong, register branches of foreign operations, and set up representative offices without encountering discrimination or undue regulation. There is no restriction on the ownership of such operations. Company directors are not required to be citizens of, or resident in, Hong Kong. Reporting requirements are straightforward and not onerous.

Hong Kong's extensive body of commercial and company law generally follows that of the United Kingdom, including the common law and rules of equity. Most statutory law is made locally. The local court system provides for effective enforcement of contracts, dispute settlement, and protection of rights. Formalities are minimal in company

incorporation and business registration. Foreign and domestic companies register under the same rules and are subject to the same set of business regulations.

The Hong Kong Government's InvestHK encourages inward investment as a means of introducing new or improved products, processes, designs and management techniques. U.S. and other foreign firms can participate in government financed and subsidized research and development programs on a national treatment basis.

There is no capital gains tax, nor are there withholding taxes on dividends and royalties. Profits can be freely converted and remitted. Foreign-owned and Hong Kong owned firms are taxed at the same rate, 17.5 percent of profits. There are no preferential or discriminatory export and import policies that affect foreign investors. There are no direct subsidies to domestic industries.

There are no disincentives to foreign investment such as quotas, bonds, deposits, or other similar regulations. The Hong Kong Code on Takeovers and Mergers (1981) sets out general principles for acceptable standards of commercial behavior.

According to Hong Kong Government statistics, there were 3,798 regional operations of overseas companies in Hong Kong in 2005. The Government defines regional operations as: regional headquarters that control the operation of other branches in the region without frequent referrals to the parent company outside Hong Kong; and regional offices as offices that coordinate operations elsewhere in the region with frequent referrals to the parent company outside Hong Kong or a regional headquarters. The U.S. has the largest number of regional headquarters and offices in Hong Kong (868 companies), followed by Japan (741 companies) and the UK (330 companies). The major lines of business of the regional headquarters include wholesale/retail, import/export, finance and banking, manufacturing, and transport and related services.

The Hong Kong Government owns all land, granting long-term leases without transferring title. Local and foreign leaseholders are treated equally. The Government plays a significant role in the housing market: about 50 percent of homes in Hong Kong are rented from the Government or purchased with government assistance at below market rates.

With few exceptions, the Hong Kong Government does not attempt to limit the activities of foreign investors either in specified projects or sectors. Foreign investment in Hong Kong flows freely into the industrial sector as well as into services, franchises, restaurants, the entertainment industry, and the ownership of property, both residential and commercial. The telecommunications services market has been fully liberalized since January 1, 2003.

The exceptions to the Hong Kong Government's open foreign investment policy are:

Broadcasting - Voting control of free-to-air television stations by non-residents is limited to 49 percent. There are also residency requirements for the directors of broadcasting companies.

Legal Services - Foreign lawyers are able to practice foreign and international law in Hong Kong. Foreign lawyers can apply to take the Hong Kong Bar Examination and, if successful, practice Hong Kong law. Foreign law firms may not hire local lawyers to

advise on Hong Kong law, but may themselves become "local" firms after satisfying certain residency and other requirements. They may thereafter hire local attorneys, but must do so on a 1:1 basis with the foreign lawyers. They also can form associations with local law firms.

Hong Kong has a free trade agreement with Mainland China, referred to as CEPA, or the Closer Economic Partnership Arrangement. CEPA provides tariff-free export to Mainland China of Hong Kong-origin goods and preferential access for specific services sectors. The agreement was originally implemented at the beginning of 2004 and has been expanded twice since then. When the third phase was implemented at the beginning of 2006, all Hong Kong-origin products became eligible for tariff-free access to Mainland China. Service providers in 27 sectors (e.g., logistics, distribution) also now enjoy preferential treatment on the mainland. U.S. and other foreign firms with a significant presence in Hong Kong are eligible to take advantage of CEPA concessions to enter the mainland market.

Conversion and Transfer Policies

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There are no restrictions on conversion and inward or outward transfer of funds for any purpose. The Hong Kong dollar is a freely convertible currency that, since late 1983, has been linked via currency board to the U.S. Dollar at an exchange rate of approximately HKD7.8 = US\$ 1. There is no allocation of foreign exchange.

Expropriation and Compensation

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The U.S. Consulate General is not aware of any expropriation actions in the recent past. Expropriation of private property may occur if it is clearly in the public interest, but only for well-defined purposes such as implementation of public works projects. If this is the case, expropriations are to be conducted through negotiations, in a non-discriminatory manner in accordance with established principles of international law. Due process and transparency are to be observed. Investors in and lenders to expropriated entities are to receive prompt, adequate, and effective compensation. Property may be acquired under the State Land Resumption Ordinance, the Land Acquisition Ordinance, the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance or the Roads Ordinance. These ordinances provide for payment of compensation. If agreement cannot be reached on the amount payable, either party can refer the claim to the Land Tribunal.

Dispute Settlement

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The U.S. Consulate General is not aware of any investor-state disputes in recent years involving U.S. or other foreign investors or contractors and the Hong Kong Government. The Hong Kong Department of Justice is also not aware of any such disputes. Private investment disputes are normally handled in the courts or via private negotiation.

Alternatively, disputes may be referred to the Hong Kong International Arbitration Center.

The Hong Kong Government accepts international arbitration of investment disputes between itself and investors. Following reversion to Chinese sovereignty on July 1, 1997, Hong Kong applies provisions of the International Center for the Settlement of Investment Disputes (ICSID), known as the Washington Convention, and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Hong Kong has also adopted the United Nations Commission on International Trade Law (UNCITRAL) model law for international commercial arbitration.

Hong Kong and Mainland China signed a Memorandum of Understanding in June 1999 on an arrangement parallel to the New York Convention for the reciprocal enforcement of arbitral awards, since the New York Convention, being an international agreement, is no longer applicable to the enforcement of arbitral awards between Hong Kong and Mainland China.

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Courts of justice in Hong Kong include the Court of Final Appeal, the High Court (composed of the Court of Appeal and the Court of First Instance), the District Court, the Magistrate's Courts, the Coroner's Court, and the Juvenile Court. There are also a Lands Tribunal, Labor Tribunal, and other statutory tribunals.

Performance Requirements and Incentives

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Consistent with its non-interventionist economic philosophy, Hong Kong imposes no export performance or local content requirements as a condition for establishing, maintaining or expanding a foreign investment. Hong Kong offers no special privileges to attract foreign investment. There are no requirements that Hong Kong residents own shares, that foreign equity be reduced over time, or that technology be transferred on certain terms.

All of Hong Kong is a duty-free zone. Subject to non-discriminatory application of excise taxes and restricted entry in some sectors, as noted above, local and foreign firms are free to take advantage of investment opportunities as they arise.

Right to Private Ownership and Establishment

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Hong Kong law and regulations provide for the right of foreign and domestic private entities to establish, own and dispose of interests of business enterprises. Foreign investors are allowed, except for the sectors noted above, to engage in all lawful forms of remunerative activity. The Hong Kong Government does not generally engage directly in business activity via public enterprises. Business privileges, franchises and land development rights are granted on the basis of competitive equality.

Hong Kong's commercial and company laws provide for effective enforcement of contracts and protection of corporate rights. Hong Kong has filed its notice of compliance with the trade-related intellectual property requirements of the World Trade Organization. The Intellectual Property Department, which includes the Trademarks and Patents Registries, is the focal point for the development of Hong Kong's intellectual property regime. The Customs and Excise Department is the principal enforcement agency for intellectual property rights (IPR). Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the Geneva and Paris Universal Copyright Conventions. Hong Kong also continues to participate in the World Intellectual Property Organization, as part of Mainland China's delegation.

The Hong Kong Government devotes significant attention and resources to IPR enforcement. Implementation of laws passed in recent years, including aggressive raids at the retail level, has significantly reduced illegal production and retail sales of copyright and trademark protected products. The Hong Kong courts have imposed longer jail terms for violations of Hong Kong's copyright ordinance. The Hong Kong Government has conducted public education efforts to encourage respect for intellectual property rights. Nevertheless, pirated and counterfeit products remain available at the retail level throughout Hong Kong. In addition, end-use piracy of software and textbooks, the rapid growth of peer-to-peer downloading via the Internet, and the illicit importation and transshipment of pirated and counterfeit goods, including optical discs and name brand handbags and apparel from Mainland China and elsewhere in the region, are continuing problems. Hong Kong authorities have taken steps to address these problems by: continued monitoring of suspect shipments at points of entry; establishing a task force to monitor and crack down on peer-to-peer (P2P) piracy over the Internet in December 2004; and prosecuting software end-use piracy. The task force made its first arrest for distributing unauthorized movies via this technology in January 2005. The court sentenced the offender to three months' imprisonment in November 2005. Another vulnerability is that health authorities continue to permit the registration of generic drugs for marketing without regard to whether these products infringe on valid patents. Despite extensive consultations with industry, no progress has been made on closing this loophole.

The Copyright Ordinance protects any original copyright work created or published by any person anywhere in the world. It provides for rental rights for sound recordings and computer programs but not films. It provides for enhanced penalty provisions against copyright piracy and additional legal tools to facilitate enforcement. It decriminalizes parallel imports of copyrighted products one year after their release anywhere in the world, but maintains civil penalties. In September 2004, Hong Kong implemented an amendment to the Copyright Ordinance that facilitates enforcement against and prosecution of the illicit reproduction of printed works. The amendment, which will remain in effect until July 2006, also maintains criminal liability for business-related end-use piracy of computer programs, movies, television dramas, and musical recordings while continuing to exclude the business-related end-use piracy of printed works from criminal liability. Public consultation is now underway concerning a successor amendment.

The Patent Ordinance allows for granting of an independent patent in Hong Kong based on the patents granted by the UK and the Chinese Patent Offices. The patent granted in Hong Kong is independent and capable of being tested for validity, rectified, amended, revoked and enforced in Hong Kong courts.

The Registered Design Ordinance is modeled on the EU design registration system, with certain modifications. To be registered, a design must be new. The system requires no substantive examination. Protection is for an initial period of five years, and may be extended for four periods of five years each, up to a maximum of 25 years.

Hong Kong's trademark law is TRIPS-compatible and allows for registration of trademarks relating to services. All trademark registrations originally filed in Hong Kong are valid for seven years and renewable for 14-year periods. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, such use must have been in Hong Kong.

Hong Kong has no specific ordinance to cover trade secrets. Under the Trade Description Ordinance, however, the Government has the duty to protect information being disclosed to other parties. The Trade Description Ordinance prohibits false trade descriptions, forged trademarks and misstatements in respect of goods supplied in the course of trade.

Transparency of Regulatory System

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Hong Kong's body of law and regulation recognizes the value of competition in economic endeavor. Tax, labor, health and safety and other laws and policies avoid distortions or impediments to the efficient mobilization and allocation of investment. Bureaucratic procedures and "red tape" are held to a minimum and are equally transparent to local and foreign investors. Hong Kong does not have an anti-trust law. Hong Kong has, however, set up a Competition Policy Review Committee that is expected to make recommendations by mid-2006 as to whether such a law should be introduced, and, if so, what should be its scope and application. Currently, only the telecommunications and, to a lesser degree, the broadcasting sectors have competition regulations in place. Certain sectors of the economy are dominated by monopolies or cartels, not all of which are regulated by the Hong Kong Government. These entities do not discriminate against U.S. goods or services, but they can use their market position to block effective competition.

Efficient Capital Markets and Portfolio Investment

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There are no impediments to the free flow of financial resources. Non-interventionist economic policies, complete freedom of capital movement and a well-understood regulatory and legal environment have greatly facilitated Hong Kong's role as a regional and international financial center. Hong Kong's has one of the most active foreign exchange markets in Asia.

Hong Kong has a three-tier system of deposit-taking institutions: licensed banks, restricted license banks, and deposit-taking companies. Only licensed banks can offer current (checking) or savings accounts. At the end of November 2005, Hong Kong had 132 licensed banks, 41 restricted licensed banks, 35 deposit-taking institutions, and 86 representative offices. The Hong Kong & Shanghai Banking Corporation (HSBC) is Hong Kong's largest banking group. With its majority-owned subsidiary Hang Seng Bank, and 204 branches, the group controls more than 36.5 percent of Hong Kong dollar deposits. The Bank of China (Hong Kong) is the second-largest banking group (217 branches), and controls 16.3 percent of Hong Kong dollar deposits. Twenty-nine American "authorized financial institutions" operate in Hong Kong. U.S. banks licensed in Hong Kong are listed in Chapter 7 – U.S. Banks and Local Correspondent Banks. Most banks in Hong Kong maintain U.S. correspondent relationships.

Hong Kong's five largest banks, in terms of total assets (2004), are as follows:

| Rank | Institution | Total Assets (US\$ Billion) |
|------|--|--------------------------------|
| 1 | Hong Kong & Shanghai Banking Corp (HSBC) | 315.3 |
| 2 | Bank of China (Hong Kong) | 102.2 |
| 3 | Hang Seng Bank Ltd. | 70.3 |
| 4 | Standard Charter Bank, Hong Kong Branch | 43.7 |
| 5 | Bank of East Asia, Ltd. | 27.0 |

Sources: Companies' annual reports

Credit in Hong Kong is allocated strictly on market terms and is available to foreign investors on a non-discriminatory basis. The private sector has access to the full spectrum of credit instruments as provided by Hong Kong's banking and financial system. Legal, regulatory, and accounting systems are transparent and consistent with international norms. The Hong Kong Monetary Authority (HKMA) functions as a de facto central bank. It is responsible for maintaining the stability of the banking system and managing the Exchange Fund backing Hong Kong's currency. The HKMA, with the assistance of the banking sector, has upgraded Hong Kong's financial market infrastructure. Real Time Gross Settlement helps minimize risks in the payment system and brings Hong Kong in line with international standards. The Hong Kong Mortgage Corporation (HKMC) promotes the development of the secondary mortgage market in Hong Kong. The HKMC is 100 percent owned by the Government through the Exchange Fund. The HKMC purchases residential mortgage loans for its own retained portfolio and also repackages mortgages into mortgage-backed securities for sale. In 2004, the HKMC issued US\$1.5 billion worth of debt in the local debt market, raising the outstanding amount of debt to US\$3.5 billion.

In May 2004, the Legislative Council passed a law establishing the Deposit Protection Scheme that protects HK\$100,000 (US\$12,820) per depositor per bank. HKMA expects

the scheme will start in the second half of 2006. While Hong Kong requires participation by locally licensed banks, overseas-incorporated banks may apply for exemption from participation if a comparable scheme in their home jurisdiction covers the deposits taken by its Hong Kong offices. In 2004, the Hong Kong Monetary Authority (HKMA) and Dun & Bradstreet (HK) Ltd. (D&B) jointly launched a Commercial Credit Reference Agency (CCRA) to collate information about the indebtedness and credit history of small and medium-sized enterprises (SMEs) and make such information available to members of the Hong Kong Association of Banks (HKAB) and the Hong Kong Association of Deposit Taking Companies.

Under the Insurance Companies Ordinance, insurance companies are authorized by the Insurance Authority to transact business in Hong Kong. Hong Kong has the highest number of authorized insurance companies in Asia. As of September 2005, there were 178 authorized companies. Of these, 87 were foreign companies from 22 countries. A number of the world's top insurance companies in terms of assets have branch offices or subsidiaries in Hong Kong.

With a total market capitalization of US\$1,059 billion and 1,132 listed firms at year-end 2005, Hong Kong's stock exchange ranked second in Asia after Tokyo, and ninth in the world in terms of capitalization. Hong Kong Exchanges and Clearing Limited (HKEx), a listed company, operates the stock and futures exchanges. The Securities and Futures Commission, an independent statutory body outside the civil service, has licensing and supervisory powers to ensure the integrity of markets and to protect investors.

In April 2003, the Government implemented a major modernization of the legal framework for Hong Kong's securities market designed to upgrade transparency and corporate governance, boost regulators' enforcement powers, and improve investor protections. To enhance market competitiveness, HKEx in the same month removed the rule on minimum brokerage commission rates for stock and futures transactions.

There are no discriminatory legal constraints to foreign securities firms establishing in Hong Kong via branching, acquisition, or subsidiaries. In practice, foreign firms typically establish in Hong Kong as subsidiaries. Rules governing operations are the same, irrespective of ownership. Portfolio investment decisions are left to the private sector. There are no laws or regulations that specifically authorize private firms to adopt articles of incorporation/association that limit or prohibit foreign investment, participation, or control.

The stock exchange plays a significant role in raising capital for Chinese state-owned enterprises. Chinese state enterprises raise equity (through the issuance of so-called "H" shares) in Hong Kong provided they meet Hong Kong regulatory and accounting requirements. These "H" shares are denominated in Renminbi, but must be purchased in Hong Kong Dollars. In 2005, a total of 119 Chinese enterprises had "H" share listings on the stock exchange, with market capitalization of US\$158.7 billion.

Hong Kong has made a concerted effort to develop a local debt market with the Exchange Fund bills and notes program. Maturities now extend to ten years. Hong Kong Dollar debt (public and private) has increased gradually, from US\$3.46 billion at the end of 1989 to US\$85.1 billion by the end-September of 2005. Regional infrastructure financing requirements and increasing investor demand are projected to stimulate further development of the local debt market. In May 2004, for the first time,

Hong Kong issued bonds securitizing the revenues from Government tunnels and bridges. In June 2004, the governmental Hong Kong Mortgage Corporation established a US\$2.6 billion retail bond program. In July 2004, the Hong Kong Government issued its first sovereign bonds totaling US\$2.6 billion to raise cash for its public works program.

The Hong Kong Government requires workers and employers to contribute to retirement funds under the Mandatory Provident Fund (MPF) scheme. Contributions are expected to channel US\$3-4 billion per year into various investment vehicles. By the end of September 2005, the net asset values of MPF funds amounted to US\$18.4 billion.

The Exchange Fund Investment Limited (EFIL), established by the Government to dispose of the stock portfolio it purchased during the Asian Financial Crisis, completed its operations in January 2003. EFIL disposed of the stocks in the form of a mutual fund, the Tracker Fund of Hong Kong (TraHK). The Government decided to retain a portion of the stocks (worth about US\$410 million) as a long-term investment. The HKMA is responsible for the management of these stocks. TraHK is traded on the stock exchange.

Political Violence

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Hong Kong is politically stable. Demonstrations are almost always peaceful. During the Sixth Ministerial Meeting of the World Trade Organization in December 2005, there were a number of incidents and arrests involving demonstrators. Otherwise, the U.S. Consulate General is not aware of any incidents involving politically motivated damage to projects or installations.

Corruption

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Hong Kong has an excellent track record in combating corruption. U.S. firms have not identified corruption as an obstacle to foreign direct investment. The Independent Commission Against Corruption (ICAC) is responsible for combating corruption. The ICAC is independent of the public service and the ICAC Commissioner is responsible directly to the Chief Executive. A bribe to a foreign official is a criminal act, as is the giving or accepting of bribes, for both private individuals and government employees. Penalties are stiff. For example, a civil servant who solicits or accepts any advantage without special permission of the Government can receive one year's imprisonment and a HK\$100,000 fine if convicted. Individuals in both the private and public sector can receive up to 7 years imprisonment and a HK\$500,000 fine for offering, soliciting or accepting a benefit for performance or non-performance of an official duty.

Bilateral Investment Agreements

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Hong Kong is negotiating a series of bilateral investment agreements -- the Hong Kong Government calls them "Investment Promotion and Protection Agreements" -- with major

foreign investors. To date, Hong Kong has signed agreements with Australia, Austria, Belgo-Luxembourg Economic Union, Denmark, France, Germany, Italy, Japan, Korea, the Netherlands, New Zealand, Sweden, Switzerland, Thailand and the United Kingdom. The Hong Kong Government has initialed agreements with Canada and Vietnam. It is negotiating agreements with Singapore and Thailand. All such agreements are based on a model text approved by Mainland China through the Sino-British Joint Liaison Group. The United States and Hong Kong held talks on a bilateral investment agreement in the late 1990s, but certain differences could not be resolved and negotiations were suspended. U.S. firms, however, are not at a competitive or legal disadvantage since Hong Kong's market is open and its legal system impartial.

OPIC and Other Investment Insurance Programs

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Overseas Private Investment Corporation (OPIC) coverage is not available in Hong Kong. Hong Kong is a member of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

Labor

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In the 1980s and much of the 1990s, Hong Kong's unemployment rate hovered around two percent. Reflecting structural changes in the local economy and weak global economic conditions, the unemployment rate rose to a record level of 8.3 percent in May 2003. The job market has improved gradually since then, with the unemployment rate standing at 5.3 percent in October 2005. The Employees Retraining Board provides skills retraining for local employees to cope with ongoing structural change in the economy.

To address a shortage of highly skilled technical and financial professionals, the Hong Kong Government has made efforts to attract qualified foreign and mainland Chinese workers. As of July 2003, conditions for admitting mainland Chinese for employment were eased and aligned with those applicable to foreign nationals.

In 2004, membership in Hong Kong's 659 registered unions totaled 658,488, a participation rate of about 21.0 percent. Hong Kong has implemented 41 conventions of the International Labor Organization in full and 18 others with modifications.

Local law provides for the right of association and the right of workers to establish and join organizations of their own choosing. The Government does not discourage or impede the formation of unions. Workers who allege discrimination against unions have the right to have their cases heard by the Labor Relations Tribunal. Although legislation does not prohibit strikes, in practice most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal. Collective bargaining is legal in Hong Kong, but there is no obligation on employers to engage in it. In practice, collective bargaining is not widely used. For more information on labor regulations in Hong Kong, please check the following website: <http://www.justice.gov.hk/home.htm> (click on Chapter 57 "Employment Ordinance").

Hong Kong is a free port without foreign trade zones.

Hong Kong's modern and efficient infrastructure supports Hong Kong's role as a trade entrepot and regional financial and services center. Rapid growth has placed severe demands on that infrastructure, giving rise to plans for major new investments, particularly in transportation and shipping facilities, over the next few years. Significant elements include a planned expansion of container terminal facilities, additional roadway and railway networks, major residential/commercial developments, community facilities, and environmental protection projects. In May 2004, the Legislative Council passed a bill allowing the Hong Kong Government to issue US\$2.6 billion bonds to fund infrastructure or other investment projects.

Airport: In the first 11 months of 2005 Hong Kong's international airport at Chek Lap Kok handled daily an average of 718 flights, 108,727 passengers, and more than 9,256 tons of cargo. Seventy-eight international airlines operated some 5,300 scheduled flights per week between Hong Kong and 140 cities around the world. Hong Kong is a major gateway to Mainland China. There are direct flights from Hong Kong to nearly 40 mainland cities. The demand for services to Mainland China is growing. The Hong Kong airport is in the world's top ranks in terms of passenger and cargo throughput.

With 24-hour operations, two all-weather runways, an ability to cater to all types of commercial aircraft, and high-speed transport links from the terminal to the city, the airport is well positioned to meet Hong Kong's aviation needs in the coming decades.

The airport has a multi-modal marine cargo terminal that provides vessel services between various ports in the Pearl River Delta and the airport. One of the air cargo handling facilities, Asia Airfreight Terminal, is constructing a new terminal to triple its air cargo handling capacity. To strengthen Hong Kong's position as the economic gateway of Mainland China and Asia and to boost revenues, the Airport Authority is building SkyCity, which will include construction of a world-class exhibition center, Asia World-Expo; SkyPlaza, an office and retail complex; SkyPier, a cross-boundary ferry terminal; and a nine-hole golf course.

The organization responsible for safety oversight, the Civil Aviation Department, plans to introduce satellite-based Communications, Navigation, Surveillance/Air Traffic Management (CNS/ATM) Systems. The new equipment will enhance flight safety and efficiency as well as maintain Hong Kong's status as a center of international and regional aviation. The project will take 15 years.

Shipping and Port Activities: Hong Kong enjoys one of the best natural deep-water ports on the Chinese coast. With continued high economic growth and industrialization in Mainland China, the development of deep-water ports at Yantian and Gaolan in southern China should complement Hong Kong's facilities over the medium term. Over the longer term, the Hong Kong port will face increased competition from those ports and from Shanghai, which are improving their service efficiency.

Hong Kong's container port is one of the world's busiest. In the first 11 months of 2005, Hong Kong's nine privately-operated container terminals and mid-stream operators handled 20.5 million twenty-foot equivalent units (TEUs) of cargo. Some 80 international shipping lines are providing over 400 container liner services per week connecting to over 500 destinations worldwide.

Hong Kong's container terminal handling capacity is 18 million twenty-foot equivalent units (TEUs) a year, which will be able to cope with the forecast growth in demand to the end of this decade. The container terminals handle about 60 percent of the port's total throughput. The river trade terminal, mid-stream operators and other facilities handle the remaining 40 percent. The Hong Kong Government commissioned a study on "Hong Kong Port - Master Plan 2020" to formulate a competitive, sustainable strategy and a master plan for Hong Kong's port development, including the location of a new container terminal and related infrastructure, for the coming twenty years. The study has been presented to industry and the Legislative Council for consultation. Taking into account the comments received, the Government is working out an action plan to implement the recommendations of the study.

Roads and Railroads: Hong Kong's roads have one of the highest vehicle densities in the world. In September 2005, there were 538,874 licensed vehicles and about 1,943 kilometers of roads, or 277 vehicles per kilometer of road. This high vehicle density, combined with difficult terrain and high density building development, poses a constant challenge to transport planning, road construction and maintenance. To cope with worsening traffic congestion, largely due to the rapid growth in the number of private cars, the Highways Department has launched an extensive road construction program. The Highways Department has budgeted US\$5.4 billion for road projects between 2005/2006 and 2010/2011. Hong Kong will also build a bridge from the Western tip of Lantau Island to Macau and Zhuhai, paving the way for accelerated development of the Western Pearl River Delta region.

Two railway corporations manage Hong Kong's metro and rail systems: the Mass Transit Railway Corporation (MTRC) and the Kowloon-Canton Railway Corporation (KCRC). The MTRC operates a six-line metro system, including a line to the airport. The KCRC operates lines that extend further into the New Territories and to the Hong Kong/Mainland border. The oldest track is a 34-kilometer rail line that services towns in the northeastern New Territories and also provides border crossing and freight service into Mainland China. In addition, KCRC also operates a Light Rail Transit System in the northwestern New Territories. In December 2003, KCRC opened the West Rail, which is a 30.5 kilometer twin-track passenger railway with nine stations running between the northwestern New Territories and urban Kowloon.

Hong Kong is working on a massive expansion of its rail system. Investment in Hong Kong's domestic and cross-boundary rail networks in the next decade is expected to exceed in scale the US\$20 billion spent on the transportation facilities associated with the airport. Most of the projects involve linking existing lines or creating extensions to new points of interest. One project will create a second border crossing into Mainland China at Lok Ma Chau, with a rail line that will extend over a new bridge and link up with the Shenzhen Metro. The MTRC is building a line that will extend to the southern part of Hong Kong Island. The KCRC plans to construct a freight line connecting Kwai Chung Port with the Lo Wu border crossing.

Table 1: Position of Inward Foreign Direct Investment by Major Investor Country/Territory, as at end of 2003.

| Country | US\$ Billion | % Share of Total |
|------------------------|--------------|------------------|
| China | 98.7 | 36.0 |
| Netherlands | 32.8 | 12.0 |
| Bermuda | 26.7 | 9.7 |
| British Virgin Islands | 24.8 | 9.1 |
| United States | 24.1 | 8.8 |
| Japan | 18.2 | 6.7 |
| Singapore | 7.4 | 2.7 |
| United Kingdom | 6.2 | 2.3 |
| Cayman Islands | 5.3 | 2.0 |
| Switzerland | 2.7 | 1.0 |
| Others | 26.9 | 9.8 |
| TOTAL | 273.9 | 100.0 |

Source: Hong Kong Census and Statistics Department

Note 1: Excluding inward direct investment from offshore financial centers, which were originally from Hong Kong.

Note 2: US\$1 = HK\$7.8

Table 2: Position of Inward Foreign Direct Investment by Major Economic Activity, as at end of 2003.

| | US\$ Billion | % of Total |
|--|--------------|------------|
| Investment holdings, real estate and various business services | 126.2 | 46.1 |
| Wholesale, retail and import/export trades | 51.3 | 18.7 |
| Banks and deposit-taking companies | 39.9 | 14.6 |
| Financial institutions other than banks and deposit-taking companies | 12.8 | 4.7 |
| Insurance | 8.9 | 3.3 |

| | | |
|--------------------------------|-------|-------|
| Transport and related services | 7.9 | 2.9 |
| Manufacturing | 7.0 | 2.6 |
| Communications | 5.7 | 2.1 |
| Construction | 3.4 | 1.3 |
| Restaurants and hotels | 3.1 | 1.1 |
| Other activities | 7.5 | 2.8 |
| TOTAL | 273.9 | 100.0 |

Source: Hong Kong Census and Statistics Department

Note: Excluding inward direct investment from offshore financial centers, which were originally from Hong Kong.

Table 3: Position of Outward Foreign Direct Investment by Major Resident Country/Territory, as at end of 2003.

| Country | US\$ Billion | % Share of Total |
|------------------------|--------------|------------------|
| China | 119.4 | 51.4 |
| British Virgin Islands | 68.2 | 29.3 |
| United Kingdom | 6.1 | 2.6 |
| Bermuda | 5.3 | 2.3 |
| Singapore | 3.8 | 1.7 |
| Malaysia | 3.1 | 1.3 |
| Thailand | 2.8 | 1.2 |
| Unites States | 2.6 | 1.1 |
| Japan | 1.9 | 0.8 |
| Taiwan | 1.9 | 0.8 |
| Others | 17.2 | 7.4 |
| TOTAL | 232.4 | 100.0 |

Source: Hong Kong Census and Statistics Department

Note: Excluding outward direct investment of offshore financial centers which were channeled back to Hong Kong.

Table 4: Position of Outward Foreign Direct Investment by Major Economic Activity, as at end of 2003.

| | US\$ Billion | % of Total |
|--|--------------|------------|
| Investment holdings, real estate and various business services | 108.6 | 46.7 |
| Wholesale, retail and import/export trades | 36.3 | 15.6 |
| Manufacturing | 16.3 | 7.0 |
| Transport and related services | 11.2 | 4.8 |
| Banks and deposit-taking companies | 5.3 | 2.3 |
| Restaurants and hotels | 5.3 | 2.3 |
| Financial institutions other than banks and deposit-taking companies | 5.0 | 2.1 |
| Insurance | 3.7 | 1.6 |
| Communications | 3.6 | 1.6 |
| Construction | 2.7 | 1.2 |
| Other activities | 34.4 | 14.8 |
| TOTAL | 232.4 | 100.0 |

Source: Hong Kong Census and Statistics Department

Note: Excluding outward direct investment of offshore financial centers that were channeled back to Hong Kong.

Table 5: Amount and Growth of U.S. Investment in Hong Kong in 2001/2002/2003/2004 in US\$ Millions.

| Year | Amount | Percent Change |
|------|--------|----------------|
| 2001 | 32,494 | 18.4 |
| 2002 | 40,329 | 24.1 |
| 2003 | 37,567 | -6.8 |
| 2004 | 43,743 | 16.4 |

Source: U.S. Department of Commerce, Bureau of Economic analysis, U.S. Direct Investment Position Abroad on a Historical Cost Basis.

Note 1: The U.S. Department of Commerce estimates the total U.S. direct investment position in Hong Kong at historical cost (the book value of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates).

Note 2: U.S. Department of Commerce statistics differ from HKG statistics. Per Table 1 above, the latter indicates total U.S. investments of US\$24.1 billion at year-end 2003.

Note 3: Preliminary figures for 2004.

Table 6: Hong Kong's Pledged and Actual Direct Investment in Mainland China in US\$ Billions and Percent Share of Total Investment in Mainland China.

| Year | Amount Pledged | Invested | Share of Total |
|-----------|----------------|----------|----------------|
| 2000 | 17.4 | 16.2 | 39.8 |
| 2001 | 20.7 | 16.7 | 35.7 |
| 2002 | 25.2 | 17.9 | 33.9 |
| 2003 | 40.7 | 17.7 | 33.1 |
| 2004 | 50.1 | 19.0 | 31.3 |
| 1978-2004 | 444.2 | 235.0 | 41.8 |

Source: PRC Ministry of Commerce.

Table 7: Major Foreign Investor Firms.

United States: American International Group, AT&T, Bank of America, Caltex, Citigroup, Coca-Cola, Compaq Computer, Disney, ExxonMobil, Federal Express, Goldman Sachs, IBM, JP Morgan Chase, Kodak, Merrill Lynch, Morgan Stanley, Motorola, Pacific Waste Management, Pepsi.

Japan: C. Itoh, Citizen Watches, Daido Concrete, Hitachi, Jusco, Mitsubishi, NEC, Nishimatsu, Nomura, Olympus, Uny.

United Kingdom: HSBC, Inchcape Pacific, Jardine Matheson, Lloyds, P & O Shipping, Standard Chartered Bank, Swire Pacific Group.

Continental Europe: Carlsberg, Hong Kong Petrochemicals (Italian/Korean/Chinese joint venture), Siemens, Heraeus, Philips, Bouygues/Dragages, Bachy-Soletanches, Banque National de Paris, Banque Indosuez, Chanel, Cartier, Christian Dior, Remy, Ericsson, Asea Brown Boveri, Tetrapak, Electrolux.

Mainland China: Bank of China (Hong Kong), Beijing Enterprises, China Everbright, China Investment and Trust Corporation (CITIC), China Merchants, China Mobile, China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation, China Ocean Shipping Co (COSCO), China Overseas Construction, China Resources, China Travel Services, China Unicom, Guangdong Enterprises, Lenovo Group, Petro China, Shanghai Industrial, Yue Xiu Enterprises.

Asia: San Miguel Brewery, News Corp., Pioneer, Sime Darby, Shangri-la/Kerry Trading, Park View Properties, Lippo Group, C.P. Pokphand, LG, First Pacific Group.

Hong Kong Census and Statistics Department: <http://www.info.gov.hk/censtatd/>

Hong Kong Monetary Authority: <http://www.info.gov.hk/hkma/>

Independent Commission Against Corruption: <http://www.icac.org.hk/>

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Openness to Foreign Investment

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Macau became a Special Administrative Region (SAR) of the People's Republic of China on December 20, 1999. Macau's status since reverting to Chinese sovereignty is defined in the Sino-Portuguese Joint Declaration (1987) and the Basic Law, Macau's constitution. Under the concept of "One Country, Two Systems" articulated in these documents, Macau is promised a high degree of autonomy in economic matters and its economic system is to remain unchanged for 50 years. Since reversion, the Macau Government has maintained a transparent, non-discriminatory and free market economy. Macau has separate membership in the World Trade Organization (WTO).

The Government hopes to diversify Macau's economy by attracting foreign investment and is committed to maintaining an investor-friendly environment. Corporate taxes are low. The tax rate is 15 percent for a company's net profits greater than US\$37,500 (300,000 patacas). For net profits less than US\$37,500, the tax ranges from 2 percent to 15 percent. The top personal tax rate is 12 percent.

The Government is seeking to develop Macau into a commercial and trade service provider for Mainland China, particularly the West Guangdong region. It also aims to facilitate trade and economic cooperation between Mainland China and Portuguese-speaking countries. In 2002, the Government ended a long-standing gaming monopoly when it awarded two gaming concessions to consortia with U.S. interests. This opening is significantly boosting the U.S. business profile and investment in Macau. In addition, a third U.S. gaming concern plans to team up with the former monopolist to build a large Las Vegas-style casino, scheduled to open in 2007.

Macau and the PRC implemented a free trade agreement, the Closer Economic Partnership Arrangement (CEPA), on January 1, 2004. The agreement is similar to the Hong Kong-PRC CEPA. Starting from 2006, it provides for market opening all Macau-origin products and continues to provide 26 service sectors preferential treatment. In December 2005, the Government inaugurated the cross-border industrial zone located between northern part of Macau and Zhuhai. Manufacturers have begun operating in the industrial zone, including one U.S. manufacturer.

Macau is heavily dependent on the gaming sector and tourism industries. In addition, a single product category, textiles and apparel, accounts for approximately 77.1 percent of its exports. With the end of the multi-fiber arrangement at the end of 2004, Macau's textile and apparel exports dropped by 20.4 percent during the first 10 months of 2005.

Foreign firms and individuals are free to establish companies, branches and representative offices without discrimination or undue regulation in Macau. There are no restrictions on the ownership of such establishments. Company directors are not required to be citizens of, or resident in, Macau.

The Government is liberalizing the telecommunications sector under a law passed in August 2001. Macau has liberalized the mobile phone market and Internet services. It has issued three mobile telephone licenses to two foreign companies and one local firm. In March 2005, the Government issued a license operating a Code Division Multiple Access (CDMA) network. The Government will issue 3G licenses in early 2006.

Certain requirements are imposed on three professional services sectors as described below. Under Macau law (Decree Law 14/95/M, 22/96M and 22/97/M), qualified professionals and executives may apply for the right of temporary residency.

i) Education - an individual applying to establish a school must have a Macau Certificate of Identity or have the right to reside in Macau. The principal of a school must be a Macau resident.

ii) Newspapers and magazines - applicants must first apply for business registration and register with the Government Information Bureau as an organization or an individual. The publisher of a newspaper or magazine must be a Macau resident or have the right to reside in Macau.

iii) Legal services - lawyers from foreign jurisdictions who seek to practice Macau law must first obtain residency in Macau. They also must pass an examination before they can register with the Lawyer's Association, a self-regulatory body. The examination is given in Chinese or Portuguese. After passing the examination, foreign lawyers are required to serve 18-month internship before they are able to practice law in Macau.

Conversion and Transfer Policies

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Profits and other funds associated with an investment, including investment capital, earnings, loan repayments, lease payments, and capital gains, can be freely converted and remitted. The domestic currency, Macau Official Pataca (MOP), is pegged to the Hong Kong Dollar at 1.03 and indirectly to the U.S. Dollar at an exchange rate of approximately MOP8 = US\$1. The Monetary Authority of Macau, the de facto central bank, is committed to exchange rate stability through maintenance of the peg to the Hong Kong Dollar.

Although Macau imposes no restrictions either on capital flows or foreign exchange operations, exporters are required to convert 40 percent of foreign currency earnings into MOP. This legal requirement is not applied to tourism services.

Expropriation and Compensation

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The U.S. Consulate General is not aware of any expropriation actions. Expropriation of property may occur if it is in the public interest. In such cases, the Macau SAR Government will exchange the private property with an equivalent public property based on the valuation and conditions of the property. The exchange of property is in accordance with established principles of international law. There is no remunerative compensation.

Dispute Settlement

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The U.S. Consulate General is not aware of any investor-state disputes involving U.S. or other foreign investors or contractors and the SAR Government. Private investment disputes are normally handled in the courts or via private negotiation. Alternatively, disputes may be referred to the Hong Kong International Arbitration Center.

Macau has an arbitration law (Decree 55/98/M), which adopts the United Nations Commission on International Trade Law (UNCITRAL) model law for international commercial arbitration. The Macau SAR Government accepts international arbitration of investment disputes between itself and investors.

Macau's legal system is based on the rule of law and the independence of the judiciary. Macau has commercial and bankruptcy laws (Decree 40/99/M). Courts in Macau include the Court of Final Appeal, Intermediate Courts and Primary Courts. There is also an Administrative Court, which has jurisdiction over administrative and tax cases. These provide an effective means for enforcing property and contractual rights. Commercial and bankruptcy laws are written under the Macau Commercial Code (Decree 40/99/M).

Performance Requirements and Incentives

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To attract foreign investment, the Macau SAR Government offers investment incentives to investors on a national treatment basis. These incentives are contained in Decrees 1/86/M, 58/99/M, 23/98/M and 49/85/M and provided if companies can fulfill at least one of the following purposes: promoting economic diversification, contributing to promotion of exports to new unrestricted markets, promoting added value within their activity's value chain, or contributing to technical modernization. There is no requirement that nationals own shares. These incentives are categorized as fiscal incentives, financial incentives and land concessions.

Fiscal incentives include full or partial exemption from profit/corporate tax, industrial tax, property tax, stamp duty for transfer of properties, and consumption tax. The tax incentives are consistent with the WTO Agreement on Subsidies and Countervailing Measures as they are neither export subsidies nor import substitution subsidies as defined in the WTO Agreement. Financial incentives include government-funded interest subsidies (ranging from 4-6 percent) on private bank Pataca loans for buying/leasing new equipment or construction/leasing of industrial buildings. Land concessions are granted to investors with a significant investment in Macau. In addition, Macau provides other subsidies for overseas promotions and applications for quality and environment management certification. Offshore companies are granted fiscal incentives and their managers and specialists who are not Macau residents are exempted from paying professional tax for the first 3 years of employment.

Right to Private Ownership and Establishment

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Macau law and regulations provide for the right of foreign and domestic private entities to establish, acquire and dispose of interests in business enterprises.

Protection of Property Rights

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Macau is a member of the World Intellectual Property Organization. Macau has acceded to the Bern Convention for the Protection of Literary and Artistic Works. Patents and trademarks are registered under Decree 97/99/M. Macau's copyright laws are TRIPS compatible and government offices are required to use only licensed software. The Macau SAR Government devotes considerable attention to intellectual property rights enforcement and coordinates with copyright holders. Source Identification Codes are stamped on all optical discs produced in Macau. Macau Economic Services (MES) uses an expedited prosecution arrangement to speed up punishment of accused pirate retailers.

The Macau Government has devoted considerable resources to combating optical disc piracy in recent years and claims to have closed down all illicit optical disc production

lines. Piracy of television signals (and much U.S.-origin program content) is rampant. The Macau Government does not have a clear position on whether there is criminal liability for commercial end-use piracy of copyrighted works. The Consulate General has raised these issues with Macau officials and continues to do so.

Transparency of Regulatory System

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The Government has transparent policies and laws that establish clear rules and do not unnecessarily impede investment. The basic elements of a competition policy are set out in Macau's 1999 Commercial Code.

Efficient Capital Markets and Portfolio Investment

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Macau allows free flows of financial resources. Foreign investors can obtain credit in the local financial market. At present, there are 27 financial institutions in Macau, including 12 local banks and 15 branches of banks incorporated outside Macau. In addition, there are ten moneychangers, two cash remittance companies, two financial intermediaries, one exchange counters and one representative office of a financial institution. These institutions provide a range of credit instruments. Banks with capital originally from Mainland China and Portugal have a combined market share of about 65.5 percent of total deposits in the banking system. Total deposits amounted to US\$16.1 billion in September 2005. In June 2005, banks in Macau maintained a capital adequacy ratio at 15.6 percent, well above the minimum 8 percent recommended by the Bank for International Settlements. Accounting systems in Macau are consistent with international norms.

Macau has no stock market, but companies can seek a listing in Hong Kong's stock markets. There is cooperation between Macau and Hong Kong financial regulatory authorities.

Under the Macau Insurance Ordinance, the Monetary Authority authorizes and monitors insurance companies. There are 11 life insurance companies and 15 non-life insurance companies in Macau. Total gross premium income from insurance services amounted to US\$236.4 million in 2004.

Offshore finance businesses, including credit institutions, insurers, underwriters, and offshore trust management companies, are regulated and supervised by the Monetary Authority. Profits derived from offshore activities are fully exempted from all form of taxes.

Political Violence

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Macau is politically stable. The U.S. Consulate General is not aware of any incidents in recent years involving politically motivated damage to projects or installations.

Corruption

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Macau's anti-corruption agency is called the Commission Against Corruption (CAC). The CAC has powers of arrest and detention. Its budget and manpower have been increased in recent years. The number of complaints of corruption handled by CAC has increased significantly as a result of these changes and a public outreach campaign. The CAC's overall effectiveness remains constrained by legislation limiting the scope of its authority to public, but not private sector corruption.

Bilateral Investment Agreements

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Macau has signed investment protection agreements with Portugal and the Netherlands.

OPIC and Other Investment Insurance Programs

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Overseas Private Investment Corporation (OPIC) coverage is not available in Macau.

Labor

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Macau's recent high unemployment rate is decreasing. By the end of October 2005, the jobless rate was 4.1 percent, down from 6.1 percent in 2003. While the relocation of manufacturing facilities across the border to Zhuhai in Mainland China drove up unemployment rates, the increase in the number of gaming facilities and hotels are having a big positive impact on employment and some shortages of skilled workers are likely to develop. Macau has labor importation schemes for unskilled and skilled workers who cannot be recruited locally. The Government is considering additional measures. The current migrant labor pool is approximately 34,718 out of a total workforce of 251,000. The Chief Executive announced in his 2005 policy address a new tax on the import temporary workers. The Government will use the proceeds for retraining locally unemployed people.

Foreign-Trade Zones/Free Ports

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Macau is a free port.

Foreign Direct Investment Statistics

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According to the Direct Investment Statistics 2004 conducted by the Statistics and Census Service, there were 1,024 foreign direct investment companies in Macau, employing 36,718 workers. Hong Kong was the largest foreign investor in Macau, accounting for 65.1 percent of total foreign direct investment.

Table 1: Stock of foreign direct investment by country, 2004

| Country | Amount US\$ Million | % Share of Total |
|-----------|---------------------|------------------|
| Hong Kong | 2,596.9 | 65.1 |
| China | 464.5 | 11.6 |
| U.S. | 380.5 | 9.5 |
| Portugal | 345.8 | 8.7 |
| U.K. | 76.3 | 1.9 |
| Others | 125.0 | 3.1 |
| TOTAL | 3,988.9 | 100.0 |

Source: Statistics and Census Service

Table 2: Stock of foreign direct investment by industry, 2004

| Sector | Amount US\$ Million | % of Total |
|---|---------------------|------------|
| Cultural, recreational, gaming and other services | 2,363.9 | 59.3 |
| Banks and securities | 802.8 | 20.1 |
| Industrial production | 345.1 | 8.7 |
| Hotels and restaurants | 180.0 | 4.5 |
| Transport, storage and communications | 160.4 | 4.0 |
| Insurance | 89.4 | 2.2 |
| Construction | 77.4 | 1.9 |
| Wholesale and retail | -30.0 | -0.8 |
| TOTAL | 3,988.9 | 100.0 |

Sources: Statistics and Census Service

Web Resources

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Macao Special Administrative Region Government: <http://www.macao.gov.mo>
Macao Trade and Investment Promotion Institute – IPIM: <http://www.ipim.gov.mo>

Macau Fair & Trade Association: <http://www.macauf.ta.com>
World Trade Centre Macau: <http://www.wtc-macau.com>

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Chapter 7: Trade and Project Financing

- [How Do I Get Paid \(Methods of Payment\)](#)
- [How Does the Banking System Operate](#)
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How Do I Get Paid (Methods of Payment)

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The preferred method of quoting is to use the "CIF" or "C and F" destination term of sale in Hong Kong dollars (HK\$). The U.S. dollar and other freely convertible currencies may be accepted for bids and pro forma invoicing. Terms of payment depend on the relative negotiating strength of the buyers and sellers. U.S. suppliers should seek to obtain letters of credit or sight draft terms when dealing with buyers who are not well known to them. Asking for a letter of credit is a standard business practice, and your potential customer will not generally interpret this as a sign of mistrust.

The importance of trade finance to Hong Kong has resulted in a high level of bank efficiency in providing import payment services. Letters of credit, documentary collections and international remittance services are widely available. The risk of financing receivables can be readily evaluated via locally available credit information. Prospective U.S. exporters should make use of established U.S.-Hong Kong banking relationships to determine credit risk.

How Does the Banking System Operate

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Hong Kong has an open financial system, with no controls on currency movement. A more complete description is contained in Chapter 6: Investment Climate – Efficient Capital Markets and Portfolio Investment.

Foreign-Exchange Controls

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The local currency, the Hong Kong dollar, is freely convertible, and there are no foreign exchange controls.

U.S. Banks and Local Correspondent Banks

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Licensed U.S. Commercial Banks in Hong Kong:

American Express Bank Ltd.: <http://www.americanexpress.com.hk>

Bank of America, N.A.: <http://www.bankofamerica.com.hk>

Bank of New York (HK Branch): <http://www.bankofny.com>

Citibank NA: <http://www.citibank.com.hk>

JP Morgan Chase Bank, N.A.: <http://www.jpmorganchase.com>

State Street Bank and Trust Company: <http://www.statestreet.com>

Wells Fargo Bank NA: <http://www.wellsfargo.com>

Notes: This list does not include U.S. restricted license banks, deposit taking companies, and representative offices.

Hong Kong's five largest local banks are indicated in Chapter 6: Investment Climate – Efficient Capital Markets and Portfolio Investment.

Project Financing

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The U.S. Export-Import (Ex-Im) Bank offers both trade financing and insurance for U.S. exports (see below). Ex-Im generally provides trade finance through financial institutions in the U.S. and the importing countries.

Export Credits: The Ex-Im Bank, an independent U.S. Government agency, seeks to increase the competitive position of U.S.-based exporters in overseas markets. By providing export insurance, loan guarantees, direct loans and other types of financing support, Ex-Im Bank supports the sales of U.S. exports and thereby creates U.S. jobs. The terms and conditions of standard financing are governed by the Organization for Economic Co-operation and Development (OECD) Export Credit Arrangement. Direct lending rates are set monthly and are called Commercial Interest Reference Rates (CIRRs).

For more information concerning Ex-Im Bank programs and application procedures, contact Ex-Im Bank in Washington, D.C. at (800) 565-EXIM or (202) 565-3946. Fee calculations and applications can be found on-line at www.exim.gov.

Hong Kong and Macau are not recipients of official development assistance (i.e., assistance from the Overseas Private Investment Corporation, U.S. Agency for International Development, or U.S. Trade and Development Agency). Infrastructure and industrial projects are financed on commercial terms. Hong Kong is also a major center for commercial project financing for Mainland China and other Asian countries.

Asia's principal multilateral development finance institution, the Asian Development Bank (ADB), is headquartered in Manila, Philippines. ADB was founded in 1966 and is owned by 61 member countries. The United States and Japan are the largest shareholders. The Bank's regional membership extends from East Asia and South Asia to Central Asia, and includes the Pacific Islands.

The ADB's total lending in 2005 totaled US\$5.82 billion. In addition, the ADB provided US\$215 million in technical assistance to its member countries. Mainland China was the largest borrower (26 percent of total, or US\$1.5 billion). Second largest was Indonesia (20 percent or US\$1.14 billion) followed by Pakistan (13 percent or US\$776 million). Bangladesh ranked fourth (8.6 percent or US\$502 million), and India ranked fifth (4.3 percent or US\$253 million).

Transport and communications again received the largest share of ADB lending in 2005, garnering 30 percent of total lending. The energy sector regained position with 18 percent, followed by multisector with 15 percent; and law, economic management and public policy with 13 percent. (Sectoral and selected Country Market Briefs may be obtained from the U.S. Commercial Liaison Office for the ADB.)

The ADB maintains resident offices in Bangladesh, Cambodia, Mainland China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Laos, Mongolia, Nepal, Pakistan, the Philippines, Sri Lanka, Uzbekistan, Vanuatu (for the South Pacific); and Vietnam; a field office in Gujarat, India; and a country office in the Philippines. The bank also maintains three representative offices in Frankfurt, Tokyo, and Washington, D.C..

The U.S. Department of Commerce maintains a Congressionally mandated Commercial Liaison Office for the ADB (CS ADB). Its mission is to help American firms access, enter and expand in Asian markets that benefit from ADB assistance. For example, the office provides counseling, advocacy, and project information. It also conducts outreach programs in the region, as well as in the United States, to help U.S. firms take advantage of commercial opportunities in countries borrowing from the ADB.

To perform its mandate, the office cooperates with the U.S. Executive Director's Office at the ADB and works closely with Commercial Service posts in the region. CS ADB's cooperation with CS Hong Kong has resulted in a number of project development efforts to help U.S. consortia and their affiliates better access ADB's private sector window. An American Senior Commercial Officer, Frank Foster, heads the office. CS ADB invites American firms to work with it in pursuing ADB commercial and infrastructure project development opportunities. The office's contact information is:

The U.S. Commercial Liaison Office for ADB
American Business Center
25th Floor, Ayala Life-FGU Building
6811 Ayala Avenue
Makati City, Philippines 1226

U.S. mailing address:
PSC 500 Box 33
FPO AP 96515-1000

Email: manila.adb.office.box@mail.doc.gov
Tel: (632) 887-1345(-6)
Fax: (632) 887-1164

The International Finance Corporation (IFC), the private sector arm of the World Bank Group, is the world's largest source of multilateral equity and loan financing for private

enterprises in developing economies. The mission of the IFC is to promote sustainable private sector investments in developing countries, helping to reduce poverty and improve people's lives. IFC finances private sector investment in the developing world, mobilizes capital in international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses.

The IFC provides US\$5 billion in financial assistance annually to private sector projects throughout Asia. As of June 30, 2005, the top four country recipients of IFC's equity and quasi-equity investments, loans and guarantees, technical assistance and advisory services were Mainland China, Indonesia, the Philippines and Thailand. In the East Asia Pacific region, IFC maintains offices in Beijing and Hong Kong SAR, PRC; Bangkok, Thailand; Hanoi, Vietnam; Jakarta, Indonesia; Manila, the Philippines, Ulaanbaatar, Mongolia; Phnom Penh, Cambodia; and Vientiane, Laos. Contact information for the IFC office in Hong Kong is:

Mr. Tim Krause
Regional Manager
Financial Institutions Group
International Finance Corporation
Suite 7903, 79th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
Tel: (852) 2509-8108
Mobile: (852) 6051-1516
Fax: (852) 2509-9363
Email: tkrause@ifc.org
Website: <http://www.ifc.org> and <http://www.worldbank.org/ict>

The U.S. Department of Commerce maintains a Congressionally mandated Business Liaison Office for the World Bank Group, including the IFC, in the Office of the U.S. Executive Director to the World Bank at World Bank headquarters in Washington, D.C. An American Senior Commercial Officer, Mr. Will Center, is the Director of the World Bank Business Liaison Office. Contact information for this office is:

Mr. Will Center
Director
Office of Business Liaison
Office of the U.S. Executive Director
The World Bank
1818 H. Street, N.W.
Washington, D.C. 20433
Tel: ((202) 458-0120
Fax: (202) 477-2967
Email: will.center@mail.doc.gov
Website: <http://www.worldbank.org>

Asian Development Bank: <http://www.adb.org>

Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

International Finance Corporation: <http://www.ifc.org>

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

The World Bank: <http://www.worldbank.org>

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Business Customs

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Over the years, Hong Kong has developed as a unique society based on a blend of Chinese tradition and Western technology. Most people who are familiar with Hong Kong know that Hong Kong means business. Above all, it is a society that emphasizes hard work and success.

Americans encounter few if any cultural problems when conducting business in Hong Kong. Americans should be aware that Hong Kong people tend to be more formal than many Americans. Business acquaintances are addressed as Mr. or Ms. unless they state that their first name should be used. Business cards are exchanged frequently, and the exchange should be fairly formal; the card should be accepted with both hands and a moment taken to read it carefully. "Face" is very important, and problems or areas of disagreement are handled indirectly to avoid loss of "face." While a study of local customs and practices may be helpful, most people in Hong Kong are sufficiently familiar with Western customs that they are tolerant of cultural differences. Business contacts should be treated the same as a formal business relationship in the United States. Western business attire (suit and tie for men, business suits for women) is appropriate.

Travel Advisory

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The Department of State issued a worldwide caution on December 12, 2005 to remind U.S. citizens of the continuing threat of terrorist actions and anti-American violence against U.S. citizens and interests overseas. The U.S. Government is also concerned about the potential for demonstrations and violent actions against U.S. citizens and interests overseas. U.S. citizens are reminded to maintain a high level of vigilance and to take appropriate steps to increase their security awareness. The Department of State remains concerned about indications that al-Qaida and affiliated groups continue to prepare to strike U.S. interests abroad. Terrorist actions may include, but are not limited to, suicide operations, assassinations, hijackings, bombings or kidnappings. These may

involve aviation and other transportation and maritime interests. Terrorists do not distinguish between official and civilian targets, including facilities where U.S. citizens and other foreigners congregate or visit. U.S. Government facilities worldwide remain at a heightened state of alert. As the Department of State continues to develop information on any potential security threats to U.S. citizens overseas, it shares credible threat information through its consular information program documents, available on the Internet at http://travel.state.gov/travel/warnings_consular.html.

Visa Requirements

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No Hong Kong SAR visa is required for American citizens who visit Hong Kong for less than 90 days. For more information regarding visa requirements for other nationalities, refer to the Hong Kong Immigration Department website:
<http://www.immd.gov.hk/index.html>.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

American Consulate General Hong Kong Consular Section website:
<http://hongkong.usconsulate.gov/consular/visa.htm>.

Telecommunications

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Types of Cellular Phone Technology

Communications facilities in Hong Kong are excellent. Most major long distance credit cards are honored, and hotels have long distance and facsimile services readily available. U.S. visitors should check with their current cellular service providers before departing the U.S. to determine whether they have an existing roaming arrangement with a Hong Kong operator. Except for some TDMA phones and a few models of GSM and CDMA phones, U.S. travelers will likely have to rent a phone from their cellular provider before leaving the U.S. due to a difference in the frequency bands used for cellular and PCS service. Travelers who do not currently have cellular phone service, or whose provider does not have a roaming agreement with a Hong Kong operator, can rent a cellular phone, using a prepaid SIM card, from companies such as Hong Kong Telecom CSL upon arrival at the Chek Lap Kok Airport. Most hotels in Hong Kong rent cellular phones to guests through their business centers. Rates vary between US\$25-US\$50 per day. For longer stays visitors can arrange rentals on a weekly basis at Hong Kong Telecom care centers for approximately US\$100 per week plus airtime. Another

option is to purchase a relatively cheap (old model) phone with a prepaid SIM card for approximately US\$115 from Hong Kong Telecom CSL retail shops.

Internet Accessibility

In terms of Internet connections, 90 percent of the households and all commercial buildings in Hong Kong have access to broadband connection. The maximum connection speed supported by the infrastructure is 1 Gbps, and the average connection speed available is 1.5 Mbps. In Hong Kong, the ISP market is very competitive, and consumers enjoy a wide and sophisticated range of services at competitive prices. The affordability of Internet services has a direct effect on the penetration of Internet usage. There are over 190 ISPs in Hong Kong, and unlimited broadband connection costs about US\$20 per month. There are approximately 1.4 million broadband subscribers in Hong Kong as of October 2004, representing a 60 percent household broadband penetration rate.

Transportation

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Hong Kong has a very good public transportation system. Major modes of transportation include buses, the Mass Transit Railway (underground subway system), trams, ferries, the Kowloon-Canton Railway and taxis. In addition, almost all major airlines service Hong Kong.

Travelers have a choice of transport from Hong Kong's Chek Lap Kok airport to their hotel. Options include the Airport Express train (US\$13 and US\$6.50 for children 3 to 11), hotel shuttle buses and express public buses (US\$5), or taxis (US\$65). The distance is approximately 25 miles.

For most travelers, we recommend use of the Airport Express train, which is the fastest way to reach Hong Kong Island, and at reasonable cost. Trains depart every ten minutes, and the ride to the terminus at "Hong Kong Station" in Central, Hong Kong Island, takes only 25 minutes. From there it costs less than US\$5 (and another 5-10 minutes) for a taxi ride to most hotels in the Central, Admiralty and Wan Chai districts. A one-way ticket on the Airport Express costs about US\$13. Round trip tickets are available. Tickets for the Airport Express may be purchased from vending machines located immediately beyond baggage claim/customs (these require Hong Kong dollars in cash) or (using cash or credit card) from the Airport Express counter located in the center of the public arrivals hall (area "A"). Once you have your ticket, proceed directly to the train. Your ticket will not be checked until you disembark, at which point you will run it through an automatic gate (similar to the equipment used by the Washington Metro or San Francisco BART) to leave the station (you may also buy your ticket upon arrival at the Airport Express station in Central). Departing trains are conveniently located in the area directly in front of public arrivals and luggage carts are available to take baggage right to the train. Train doors are at the platform level and there are storage areas for luggage just inside the train doors. If you take the Airport Express train to Hong Kong Station (last stop) you will find taxis available directly ahead as you exit the train terminal and proceed through the terminal exit gate. The Airport Express also offers a free shuttle bus service to many hotels in the Central, Admiralty and Wan Chai

districts, where the hotels used by most USG travelers are located. Look for the large sign which indicates the hotels served.

The hotel buses available at the airport are also convenient and economical but can take longer. Counters for hotel bus ticketing are also in the public arrivals area (near area "B"). When returning to the airport, you may find it convenient to take a bus directly from your hotel.

Money Exchange

The Hong Kong dollar is pegged in value against the U.S. dollar, with the rate set at approximately HK\$7.8 per US\$1. Upon arrival in Hong Kong, money exchange (Thomas Cook) is available in the area immediately outside of baggage claim/customs. Rates are not favorable, so we advise against changing large quantities of money at the airport exchange. However, there are ATM machines (currently connected to the Cirrus and Plus systems plus Visa and Master Card for cash advances) offering good exchange rates located just inside the public arrivals area. Note: the location of the ATM machines is not well marked.

Language

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English and Cantonese are the official languages. English is widely used in the Hong Kong Government, the legal system and business sectors. Mandarin Chinese (Putonghua) is becoming more common.

Health

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Mainland China and Southeast Asia have been the world epicenter for several viral illnesses in recent years such as SARS and Avian Flu. While there are currently no specific health warnings, travelers to Hong Kong are encouraged to visit the Hong Kong Center for Health Protection website: <http://www.chp.gov.hk/> or the CDC website: <http://www.cdc.gov> for up-to-date advice and information on local health issues.

Hong Kong has high public health standards, and health care in Hong Kong is similar in quality to that found in the U.S., although it can be extremely expensive. Hospitals and clinics expect payment when service is rendered and do not accept health insurance for payment. Pharmacies will accept only prescriptions from local physicians and may not be open after usual business hours. It is recommended that the traveler bring an adequate supply of prescription medications for the duration of their stay.

Local Time, Business Hours, and Holidays

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Hong Kong is 12 hours ahead of Eastern Standard Time, and 13 hours ahead during daylight savings time.

Business hours are 9 a.m. to 5 p.m., Monday through Friday, and 9 a.m. to 1 p.m. on Saturday. Many companies now have a 5-day workweek.

Holidays – 2006

| | |
|-------------|---|
| January 2 | The day following the first day of January |
| January 28 | The day preceding Lunar New Year's Day |
| January 30 | The second day of the Lunar New Year |
| January 31 | The third day of the Lunar New Year |
| April 5 | Ching Ming Festival |
| April 14 | Good Friday |
| April 15 | The day following Good Friday |
| April 17 | Easter Monday |
| May 1 | Labour Day |
| May 5 | The Buddha's Birthday |
| May 31 | Tuen Ng Festival |
| July 1 | Hong Kong Special Administrative Region Establishment Day |
| October 2 | The day following National Day |
| October 7 | The day following Chinese Mid-Autumn Festival |
| October 30 | Chung Yeung Festival |
| December 25 | Christmas Day |
| December 26 | The first weekday after Christmas Day |

As the first day of January and National Day in 2006 both fall on Sunday, the days following will be designated as the additional general holidays. Also, as the Lunar New Year's Day in 2006 falls on a Sunday, the day preceding Lunar New Year's Day will be designated as an additional general holiday.

Temporary Entry of Materials and Personal Belongings

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Hong Kong Customs does not restrict the temporary import of goods into Hong Kong, such as laptop computers, software and general exhibit materials, for business purposes, provided the goods are not restricted items that normally require an import license. The temporary import of supercomputers, which is a controlled item, or of any exhibit materials that are also controlled items would require a license even if the commodity is being shipped in only for exhibit purposes.

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American Consulate General Hong Kong Consular Section:

<http://hongkong.usconsulate.gov/consular/visa.htm>

Centers for Disease Control and Prevention: <http://www.cdc.gov>

Customs and Excise Department: <http://www.customs.gov.hk>

Hong Kong Center for Health Protection: <http://www.chp.gov.hk/>

Hong Kong Immigration Department: <http://www.immd.gov.hk/index.html>

Hong Kong Tourism Board: <http://www.discoverhongkong.com>
State Department Visa: <http://travel.state.gov/visa/index.html>
United States Visas: <http://www.unitedstatesvisas.gov/>

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Chapter 9: Contacts, Market Research, and Trade Events

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Contacts

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U.S. Consulate General Contacts:

U.S. Consulate General: <http://hongkong.usconsulate.gov>

U.S. Commercial Service: <http://www.buyusa.gov/hongkong>

U.S. Agricultural Trade Office: <http://www.usfoods-hongkong.net>

American Chamber of Commerce in Hong Kong: <http://www.amcham.org.hk>

Hong Kong Government Offices and Related Organizations:

Hong Kong SAR Government: <http://www.info.gov.hk>

Census and Statistics Department: <http://www.censtatd.gov.hk>

Companies Registry: <http://www.cr.gov.hk/>

Customs and Excise Department: <http://www.customs.gov.hk/>

Hong Kong Productivity Council: <http://www.hkpc.org>

Hong Kong Tourism Board: <http://www.discoverhongkong.com/eng/index.jsp>

Hong Kong Trade Development Council: <http://www.tdctrade.com>

Intellectual Property Department: <http://www.ipd.gov.hk>

Invest Hong Kong: <http://www.investhk.gov.hk>

Office of Telecommunications Authority: <http://www.ofta.gov.hk>

Trade and Industry Department: <http://www.tid.gov.hk>

Trade Associations:

The Chinese General Chamber of Commerce: http://www.cgcc.org.hk/index_e.html

The Chinese Manufacturers' Association of Hong Kong:

<http://www.cma.org.hk/eng/firstpage.asp>

The Cosmetic & Perfumery Association of Hong Kong Ltd.: <http://www.cosmetic-perfume.com>

Federation of Hong Kong Industries: <http://www.industryhk.org>

Hong Kong Computer Society: <http://www.hkcs.org>

Hong Kong Electronic Industries Association Ltd.: <http://www.hkeia.org>

Hong Kong Federation of Insurers: http://www.hkfi.org.hk/en_home.htm

Hong Kong Franchise Association: <http://www.franchise.org.hk>

Hong Kong General Chamber of Commerce: <http://www.chamber.org.hk/>

Internet & Telecom Association of Hong Kong: <http://www.itahk.org.hk>

Travel Industry Council of Hong Kong: <http://www.tichk.org/public/website/en/index.html>

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports, which are accessed outside the United States, only available to U.S. citizens and U.S. companies. Registration to use this site is required, but is free of charge.

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Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

For major trade events that will be held in Hong Kong, information can be retrieved from the Hong Kong Trade Development Council website: <http://www.tdctrade.com>.

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

<http://www.buyusa.gov/hongkong/en/servicesforus/html>

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.